OPPORTUNITY has never been **EASIER** TO FIND.

OPPORTUNITY has never been **HARDER** TO FIND.

HARBERT
MANAGEMENT
CORPORATION

2011 ANNUAL REPORT

Today, markets throughout the world are more volatile, more irrational than they've ever been. Finding opportunities in the chaos is easy.

Finding the right opportunities—opportunities that meet our strict requirements—takes more effort, more discipline and more commitment to our core principles than ever before.

Our beliefs are as absolute as the returns we pursue. At HMC, we approach every opportunity as an investor, because we are. We invest in each of our funds on equal terms with our partners, keeping our interests aligned. We continue to invest with rigid discipline. We continue to evaluate each opportunity from the ground up, each on its own individual merits. We do not chase trends, momentum or other models not based on fundamental research. We believe in diversification, across asset classes and within portfolios, because diversification is our most effective tool for managing risk.

We are absolute believers in transparency. We built a significant team of legal, accounting, compliance and risk management professionals. Their considerable skills help us manage risk and protect the interests of our partners through strict compliance with all relevant laws and regulations and by providing timely, comprehensive information. Equally important, our back office team frees our investment professionals to pursue opportunity with absolute focus.

Diligence. Patience. Creativity. These are the hallmarks that have consistently defined Harbert Management Corporation.

Harbert Management Corporation Funds	Final Close
REAL ESTATE	
HREP I Harbinger Real Estate Partners I, L.P.	June 23, 1995
HREF II Harbert Real Estate Fund II, LLC	September 30, 2002
HREF III Harbert Real Estate Fund III, LLC	November 17, 2006
HUSREF IV Harbert United States Real Estate Fund IV, L.P.	July 31, 2011
HEREF Harbert European Real Estate Fund BV	July 31, 2003
HEREF II Harbert European Real Estate Fund II, L.P.	March 30, 2007
HEREF III Harbert European Real Estate Fund III, L.P.*	In subscription
PRIVATE CAPITAL	
HPEF I Harbinger Private Equity Fund I, LLC	December 15, 1999
HPEF II Harbert Private Equity Fund II, LLC	December 23, 2004
HAV Harbinger/Aurora Venture Funds	March 31, 2000
HVP Harbert Venture Partners, LLC	December 31, 2004
HVP II Harbert Venture Partners II, L.P.	October 29, 2009
HVP III Harbert Venture Partners III, L.P.	In subscription
HMP Harbinger Mezzanine Partners, L.P.	December 22, 2000
HMP II Harbert Mezzanine Partners II, L.P.	January 10, 2006
HMP III Harbert Mezzanine Partners III, L.P.	In subscription
HIPF I Harbinger Independent Power Fund I, LLC	June 16, 1997
HIPF II Harbinger Independent Power Fund II, LLC	February 15, 2002
HPF III Harbert Power Fund III, LLC	June 29, 2007
HPF IV Harbert Power Fund IV, LLC	September 10, 2010
HPF V Harbert Power Fund V, LLC*	In subscription
HAPE I Harbert Australian Private Equity Fund I, L.P.	September 21, 2010
ABSOLUTE RETURN STRATEGIES	
HCOF Harbert Credit Opportunities Fund, L.P.*	Open-ended
HEOF Harbert Event Opportunities Fund, L.P.*	Open-ended
HVF Harbert Value Fund, L.P.*	Open-ended

** Feeder funds available for foreign and tax-exempt investors*

HARBERT MANAGEMENT CORPORATION

Birmingham - New York - Richmond - Nashville - Atlanta - Dallas
San Francisco - London - Madrid - Paris - Melbourne - Hong Kong

Corporate Profile

Harbert Management Corporation is an investment firm managing approximately $2.7 billion in assets and committed capital as of December 31, 2011. Our portfolio, a disciplined balance of risk and return, is comprised of 10 alternative asset classes in three areas of concentration: real estate, private capital and absolute return strategies. Our funds attract investors from around the world and from many sectors, including endowments, foundations, fund of funds, family offices, pension plans, banks, insurance companies and high-net-worth individuals. We make each commitment of capital with a disciplined focus on risk, absolute return and diversification.

We (HMC and our affiliates) make significant investments in each strategy on the same terms and conditions as our Limited Partners. This alignment of interest serves to reassure investors of our ability to source, close, develop and exit transactions profitably. Also reassuring: our institutional infrastructure that supports our diverse set of investment strategies with separate legal, accounting, compliance and risk management teams is centrally located at our headquarters in Birmingham, Alabama.

In addition to our headquarters in Birmingham, we have satellite offices in New York, Richmond, Nashville, Atlanta, Dallas, San Francisco, London, Madrid, Paris, Melbourne and Hong Kong. Our offices are close to the relevant markets for their respective strategies, while our centralized risk management and compliance programs enable these teams to concentrate on their goal of delivering superior risk-adjusted returns.

All of this is accomplished with complete transparency to our investors.

Real Estate
United States
European

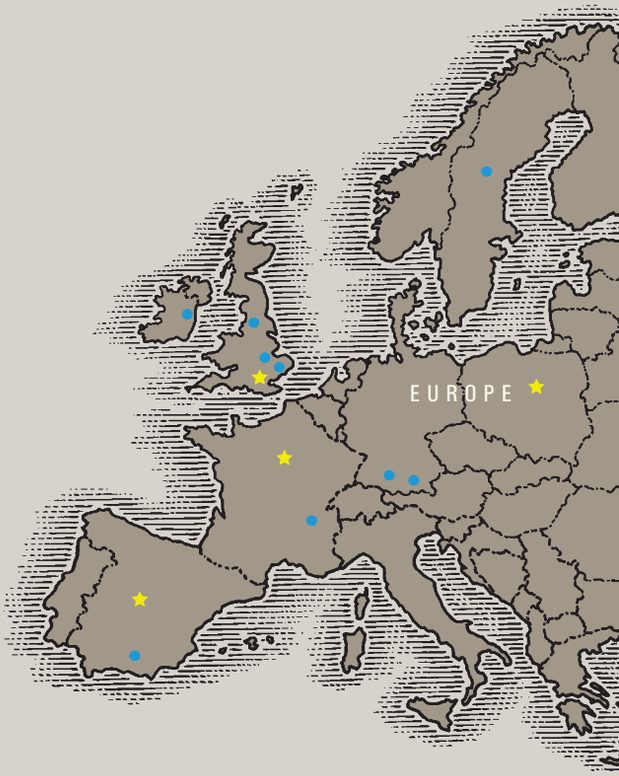
Private Capital
Private Equity
Venture Capital
Mezzanine Capital
Independent Power
Australian Private Equity

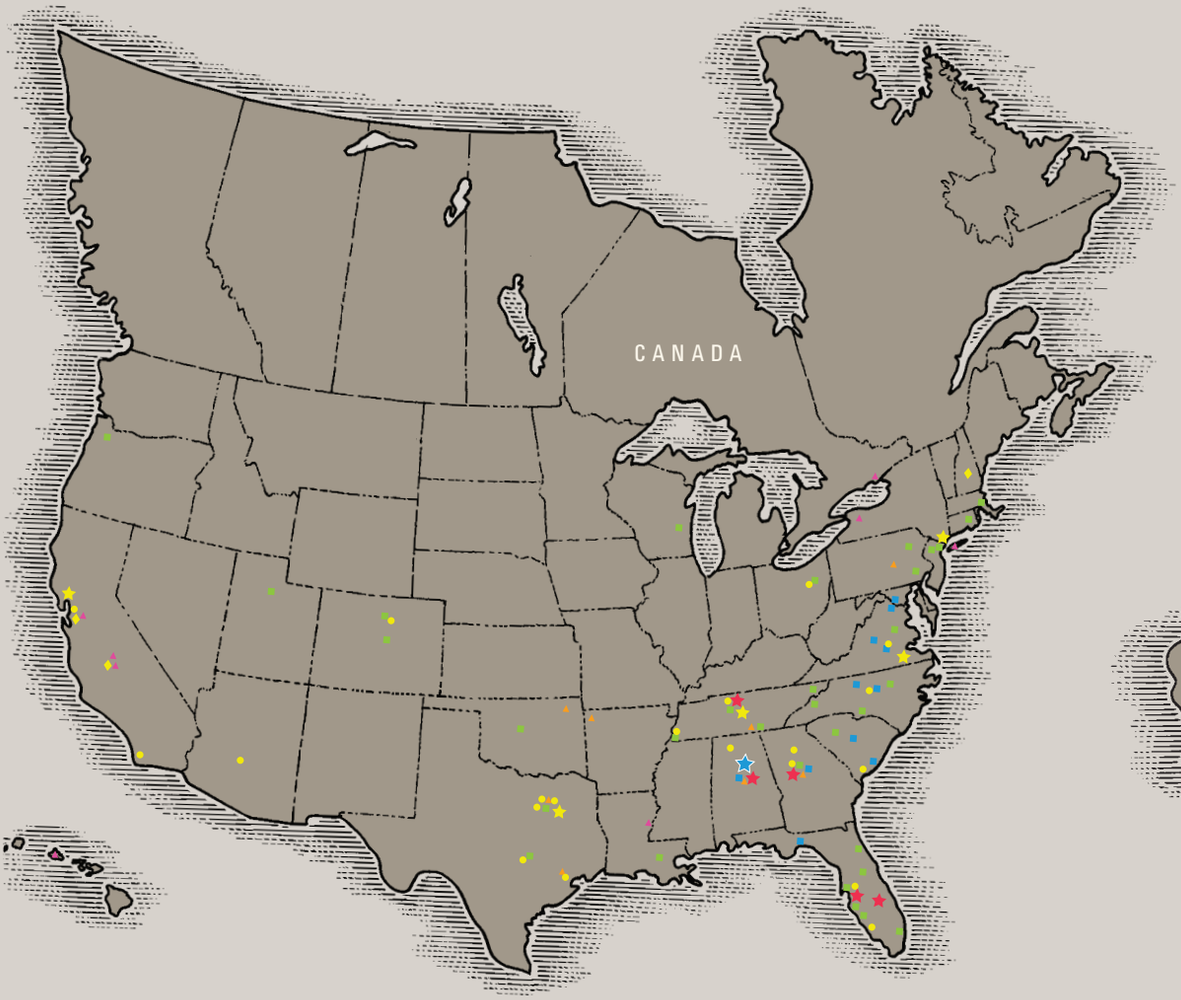
Absolute Return Strategies
Credit Opportunities
Event Opportunities
Value

Harbert Management Corporation

Locations and Private Capital Investments as of December 31, 2011

- HMC Headquarters
- HMC Investment Offices
- Harbert Realty Services Offices
- United States Real Estate Investments
- European Real Estate Investments
- Independent Power Investments
- Independent Power Managed Assets
- Private Equity Investments
- Venture Capital Investments
- Mezzanine Capital Investments
- Australian Private Equity Investments





IT WAS THE BEST OF TIMES,
IT WAS THE WORST OF TIMES,

it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to heaven, we were all going direct the other way - in short, the period was so far like the present period, that some of its noisiest authorities insisted on its being received, for good or for evil, in the superlative degree of comparison only.

—The opening paragraph of *A Tale of Two Cities* by Charles Dickens

Managing Through a Bipolar Investment Environment

LETTER TO PARTNERS, ASSOCIATES AND FRIENDS

Since Harbert Management's incorporation in 1993, we have believed the most effective and robust form of risk management revolves around diversification. We implement our diversification discipline on two dimensions. First by investing in multiple asset classes or strategies; and second by diversifying in individual investments within properly constructed portfolios. Every asset is underwritten based on its own fundamentals to develop our opinion of its absolute value. We purchase only when we are able to buy at a price below that value, which ensures an acceptable margin of error in the underwriting.

The veracity of that belief was certainly substantiated in 2011. The extreme volatility of the global markets (particularly publicly traded securities), the continuing sovereign credit deterioration, and the seeming inability of the governments of the Western world to meaningfully address their financial imbalances led to what, at best, could be described as "bipolar" investment markets. Markets that were impacted by alternating episodes of mania and depression where underlying fundamentals had little relevance compared to day-by-day emotional reaction to global macro themes. To illustrate this "bipolar" behavior we note that the S&P 500 began and ended 2011 almost unchanged; however, the market suffered a peak to trough decline of almost 20% during the middle part of the year, with 86% of this decline taking place over just 12 consecutive trading days.

This investment environment presented both opportunities and obstacles for HMC during 2011. The constant shifting in the macroeconomic outlook and resulting public market volatility presented us with numerous well-priced investment opportunities in both the private and public markets. This same uncertainty made capital formation for HMC challenging as investors continued to be reluctant to commit to new risk assets, especially those with longer expected durations. Our ability to invest was enhanced by the growing stability in the real economy, especially in the U.S., which made underwriting new investments more transparent. Tougher credit markets were a double-edged sword. Where we are a lender, the opportunity-set was enhanced; however, selling assets to buyers who needed debt to execute was a challenge, and we had several exits that failed to close because the buyer failed to obtain financing. Assets we purchased on a leveraged basis had to be well- if not over-capitalized with equity. An across-the-board negative influence on markets has been increased, through ever-changing, and often unilateral and even punitive government regulation. In the U.S., a great deal of the increased regulation seems to be the result of a combination of the "after shock" of the financial crisis, in which the failure of several regulatory agencies was exposed as well as the divisive political discourse in the United States. This "hyper aggressive" regulatory environment has directly impacted HMC's business and indirectly harmed our investors through effects on several of our portfolio companies.

So how did HMC respond to the investing/investment environment in which it found itself in 2011? We did the same things we have been doing for the last 18 years, which was to invest for absolute, not relative returns. As many of you have heard us say before: "You are not paying HMC to lose your investment capital slower than other managers."

"Doing the same thing" for HMC consists of not reacting to volatility and macro developments, but instead sticking to our discipline, staying engaged in the marketplace, and taking advantage of opportunities that market volatility creates. Rather than focusing on the macro developments, we invest or dispose of assets opportunistically based on our fundamental assessment of their individual return characteristics.

So how did HMC respond to the investing/investment environment in which it found itself in 2011? We did the same things we have been doing for the last 18 years, which was to invest for absolute, not relative returns.

For example, difficult credit markets made 2011 the best year to deploy capital in the investing history of our Mezzanine group. In fact, our unsecured debt with warrants was frequently used in place of senior bank term debt which was not available to the smaller companies we finance.

During the year, the Mezzanine team committed $92 million of debt and equity to twelve platform investments and made seven follow-on investments in portfolio companies. During the second and third quarters when stock market volatility combined with seemingly lock-step correlations of securities' prices forced many money managers to the sidelines, our long/short equity fund increased gross exposure significantly. This was not a "macro" call but a disciplined response to valuations on individual stocks that

had finally come into our strike zone. These investments paid off handsomely in the fourth quarter when markets stabilized and began to improve.

Our investment discipline also drove us to exit certain investments during 2011. The U.S. Real Estate group has begun to sell several Arizona multi-family assets acquired during 2009 when uncertainty, especially in this geographic region, was very high. Low interest rates combined with cheap government agency backed debt has caused current market cap rates for these assets to decline dramatically and created a sellers' market. Coincident with our planned exits of these apartment properties, the stabilization in the U.S. employment picture has created sufficient visibility to allow our U.S. real estate group to begin to deploy capital in office properties for the first time in several years.

The most important thing to many of you is...how our funds performed, and overall, Harbert Management funds had a good year while navigating through a very hazardous investment environment.

A derivative of our investment discipline is HMC's constant effort to find new ways to diversify our partners' portfolio of alternative assets. This effort continued in 2011 in spite of the uncertainty in the macro environment when we brought Scott Davis on board as Senior Managing Director and Portfolio Manager of the Harbert Commodities Fund. This was the culmination of a multi-year recruiting effort that began when Scott was in London working as a proprietary trader for one of the large Japanese trading companies. The fund's strategy seeks to capitalize on supply/demand imbalances in energy and base metals markets through investments in listed futures. At this point, the Harbert Commodities Fund has been capitalized entirely with HMC partners' capital. We plan to offer it to outside investors later this year.

The most important thing to many of you is not what we did or did not do in 2011, but is how our funds performed, and overall, Harbert Management funds had a good year while navigating through a very hazardous investment environment. Our two real estate strategies were up collectively over 17% in 2011. This performance was a reflection of the successful re-positioning of our U.S. Fund III real estate assets after substantial mark-downs taken in 2009 and 2010, the solid contribution of new Fund IV investments, and the continuous steady performance of our European real estate portfolio. Our inception to December 31, 2011 rate of return on the combined real estate strategies is approximately 9%– a remarkable performance given the large declines in real estate valuations in the market in general.

Private capital strategies returns for 2011 were up approximately 10%. Our performance was negatively impacted by write downs of two investments in our Australian and U.S. private equity funds. Both of these investments were impacted by unanticipated regulatory developments, and these losses partially offset strong performance in the Venture Capital, Mezzanine and Power groups. While 2011 performance was mixed for our collective private capital strategies, we are happy

In the fourth quarter, the public markets finally appeared to act somewhat rationally. Hopefully, this will continue and we will not return to the "bipolar" investment environment.

with the inception to December 31, 2011 annualized return for this segment of our business at over 18%. Our absolute return strategies were essentially flat – down approximately 70 basis points. Considering the day-to-day volatility in the global public markets, during 2011 we were pleased with those results.

As we enter 2012, we are raising capital for our European Real Estate and Independent Power funds in order to execute two of the largest transactions that HMC has ever done. The deals include two portfolios of UK office and industrial properties with an aggregate purchase price of approximately £288 million and a group of natural gas fired power plants which should be purchased for $200 to $250 million. These investments will be funded by a combination of capital from the European Real Estate and Independent Power funds and targeted co-investment capital raised from U.S., European, and Pan-Asian institutional investors. We expect both deals to close in the first half of 2012.

Also in the first half of the new year, several of our funds are actively engaged in the process of exiting investments in U.S. Real Estate, Mezzanine, and both U.S. and Australian Private Equity. Finally, as part of our continuous efforts to diversify we are close to completing negotiations with a Hong Kong based team that will focus on long/short equity investing in the Pan-Asian markets.

In the fourth quarter, the public markets finally appeared to act somewhat rationally. Hopefully, this will continue and we will not return to the "bipolar" investment environment. If the markets continue to progress as they have over the last several months, we believe 2012 may be our best performing year since before the global financial crisis.

Raymond J. Harbert
Chairman and Chief Executive Officer

Michael D. Luce
President and Chief Operations Officer

We greatly appreciate the opportunity you give Harbert Management Corporation to work for you, and we look forward to continuing to serve your investment needs in 2012 and beyond.

Sincerely,

Raymond J. Harbert
Chairman & Chief Executive Officer

Michael D. Luce
President & Chief Operating Officer

With more than 50 professionals, our back office staff exists to ensure absolute transparency in our every action, to safeguard our clients' assets and to report accurately on the performance of our various funds. They also remove much of the accounting and regulatory responsibility from our fund managers, allowing our investment professionals to focus completely on producing results.

HMC BACK OFFICE
Organizational Chart

Charles D. Miller
Executive Vice President & Global Head of Distribution

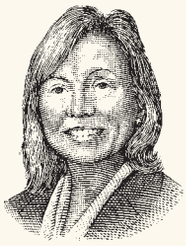
MARKETING
Melissa M. Babb
Senior Managing Director
Michael J. Larsen
Senior Managing Director
Richard F. Brereton, Jr.
Managing Director
Kenneth M. Freeman
Managing Director
Lynette P. Horton
Managing Director
(+11 Employees)

INVESTOR RELATIONS
Gina G. Pickering
Director
(+1 Employee)

David A. Boutwell
Executive Vice President & Chief Financial Officer

TREASURY
Pamela B. Blanks
Assistant Treasurer

HUMAN RESOURCES
Cathy P. Sinclair
Human Resources Manager
(+1 Employee)



Sonja J. Keeton
Senior Vice President & Chief Administrative Officer

ACCOUNTING/TAX
Shufen Hsu - Director of Corporate Taxation
Sarah Beth Cain
Assistant Controller
Kathryn R. O'Neal
Real Estate Funds Accounting & Finance Manager
Amanda P. Brown
Mezzanine Accounting Manager
Susan B. Walker
HMC Accounting Manager
Julia C. Ball
A/P Manager
(+9 Employees)

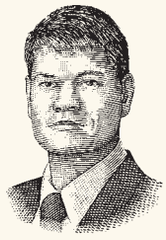
INVESTOR REPORTING PRIVATE MARKET
Darlene A. Hartmann
Director
Brandon S. Kusibab
Manager
(+1 Employee)

INFORMATION TECHNOLOLCY
Jeffrey B. Liles
Chief Information Officer
(+4 Employees)

John W. McCullough
Senior Vice President & General Counsel

LEGAL
Joel B. Piassick
Executive Vice President
S. Perry Given, Jr.
VP & Associate General Counsel
R. A. Ferguson III
VP & Assistant General Counsel
Kevin A. McGovern
VP & Assistant General Counsel
Bufkin K. Frazier
Assistant General Counsel
(+3 Employees)

COMPLIANCE
Michael C. Bauder
VP & Chief Compliance Officer
(+1 Employee)



Thomas M. Hicks
Vice President & Director of Risk Management

RISK / INTERNAL AUDIT / VALUATION
Elizabeth A. Deuel,
Director of Internal Audit
Christopher G. Hartin
Director, Private Market Valuation & Analysis
(+1 Employee)

HEDGE FUND ADMINISTRATION
Jennifer H. Patten
Director
(+3 Employees)

REAL ESTATE

A proven approach through all cycles

United States REAL ESTATE

Since 1995, the United States real estate team has consistently executed a disciplined value enhancement investment strategy targeting undervalued institutional quality assets that offer the opportunity to improve cashflow through active management. While multifamily and office properties are our primary focus, we may also acquire self storage, retail and industrial properties.

During the first half of 2011, we saw modest yet steady improvement in both underlying real estate fundamentals and investor sentiment across most property types. This trend was particularly true for multifamily assets and institutional quality "trophy" properties in gateway markets like New York, Washington DC, Boston and San Francisco where capitalization rates approached pre-recession levels. However, by the end of the summer, the macroeconomic environment chilled investor enthusiasm, influenced by a deepening European debt crisis, the U.S. government's inability to agree to a deficit reduction plan, continued weak unemployment data and significant stock market declines in the U.S. and abroad.

We will remain focused on opportunistically acquiring well-located properties in markets that we anticipate will lead the economic recovery and demonstrate solid underlying fundamentals.

While we expect this uncertainty to be a short-term drag on the real estate market, we have a favorable view of the medium- to long-term prospects for real estate and believe that investors with liquidity will be able to continue to selectively find very attractive risk/return opportunities.

Last year our investment activity focused on multifamily and office properties as we continued to balance current cashflow with capital appreciation. Attractive deal flow improved due in part to banks' willingness to sell foreclosed assets and accept discounted loan payoffs providing recapitalization opportunities of distressed partnerships with quality assets. Given the growing wave of loan maturities, we expect this trend to continue.

Looking forward to 2012, we expect to see slow and somewhat unsteady improvement in the real estate market. Capital flows, both debt and equity, will remain choppy in the face of a continued lack of clarity in the macroeconomic environment. We will remain focused on opportunistically acquiring well-located properties in markets that we anticipate will lead the economic recovery and demonstrate solid underlying fundamentals, including favorable supply/demand balance and positive long-term job growth prospects.

Michael P. White
Vice President & Senior Managing Director

Jon-Paul Momsen
Vice President & Senior Managing Director

Michael P. White
Vice President &
Senior Managing Director

Jon-Paul Momsen
Vice President &
Senior Managing Director

ESTABLISHED 1995

HMC has a long history of successful real estate investing across a broad range of property types, locations, capital structures, and real estate cycles. Harbert United States Real Estate has minimum return requirements that we strive to surpass, while ensuring we stay below acceptable risk thresholds associated with the following:

- Capital structure
- Real estate fundamentals
- Market selection
- Cost basis relative to value
- Operating partner

This style of investing allows us to achieve the highest risk-adjusted returns while remaining focused on preservation of capital. If an acceptable balance between return, risk, and margin of safety cannot be reached, we will not invest.

TEAM MEMBERS: ***Michael P. White,*** *Vice President & Senior Managing Director;* ***Jon-Paul Momsen,*** *Vice President & Senior Managing Director (San Francisco);* ***Jeffrey H. Seidman,*** *Vice President of Asset Management;* ***Todd N. Jordan,*** *Managing Director;* ***J. Travis Pritchett,*** *Managing Director;* ***Melody T. Lewis,*** *Asset Manager;* ***Andrew S. Case,*** *Asset Manager;* ***Craig L. White,*** *Associate;* ***Hagood S. Morrison,*** *Analyst;* ***James W. H. Brigham,*** *Analyst*

2011 IN REVIEW

- HREF II

  HREF II was fully liquidated generating a 20.4% net IRR and a 1.54x net equity multiple.

- HREF III

  Asset management/positioning for exits

- HUSREF IV

  HMC held the final closing for HUSREF IV with $134.2 million in committed capital.

  HUSREF IV closed nine transactions, investing $59.1 million in committed equity.

  HUSREF IV had its first disposition with the sale of 645 Almanor, generating and unleveraged gross IRR of 76% and a gross equity multiple of 1.8x.

European REAL ESTATE

The objective of the European real estate team is to aquire institutional quality assets, location driven, providing strong downside protection yet with significant upside potential. In short, this is more akin to defensive investing but with the ability to generate high returns. In our view, this approach was not possible a few years ago, but it is absolutely possible today due to the massive amount of deleveraging that the entire industry is faced with. The level of capital displacement that we have seen and are seeing in Europe is historic and is thus allowing investors like ourselves to acquire much higher-quality assets with better underlying fundamentals than in times of normal liquidity. We all know that the biggest threat to any attractive investment opportunity is too much capital chasing it. Well, right now, other than on the core end of the spectrum, we are a far cry away from having "too much" capital chasing the same product–not on the equity side and not on the debt side. Capital, other than human capital, of all sorts is in very short supply.

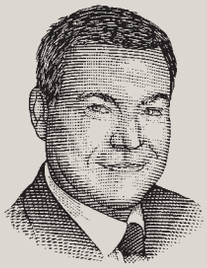
Our focus will be on the major and more stable markets of Europe, where we expect we will be able to acquire solid assets at historically low levels.

Given the low-growth environment that we are facing, this is not about top down investing; this is about as granular of an investment environment as one will find. Thus, the key to successful investing within real estate today is to approach it from the underlying fundamentals of the micro environment and the physical real estate asset itself. One of the key attributes of the senior investment team members is that they are real estate guys, and to make money in real estate is all about being able to work the real estate to maximize its potential. Plain and simple. Given our true real estate skills, extensive experience of successful investing across cycles and the fact that we have been on the ground investing throughout Europe since 1997, we are uniquely positioned to take advantage of what we expect will be an attractive investment environment over the next few years. Our focus will be on the major and more stable markets of Europe, where we expect we will be able to acquire solid assets at historically low levels. This is the same strategy that we have successfully employed since our first investment.

Scott D. O'Donnell
Vice President & Senior Managing Director

Tor V. Tveitane
Managing Director

Scott D. O'Donnell
Vice President & Senior Managing Director



Tor V. Tveitane
Managing Director

ESTABLISHED 2002

Harbert European Real Estate Fund seeks to assemble a diversified portfolio of real estate investments across Europe. We seek to balance appreciation-driven investments with current cash returns by investing in multiple asset classes that are expected to deliver both secure medium- to long-term investment income streams as well as provide opportunities for material value-creation through active asset management. Fundamental, bottom-up analysis, with a particular emphasis on risk mitigation, provides the basis for the Fund's approach and process with respect to its investments. Our fund intends to employ multiple asset-level strategies across the portfolio in an effort to attain favorable risk-adjusted returns based on current market conditions. We expect to build on the predecessor funds' successful history and established presence across Europe.

TEAM MEMBERS: ***Scott D. O'Donnell,*** *Vice President and Senior Managing Director;* ***Tor V. Tveitane,*** *Managing Director;* ***Peter J. A. Land,*** *Principal;* ***Roque I. Rotaeche,*** *Principal (Madrid);* ***Eric R. Desautel,*** *Principal (Paris);* ***James C. Flood,*** *Vice President;* ***G. Huw Davies,*** *Vice President and Head of Asset Management;* ***David King,*** *Associate;* ***Jon Evans,*** *Accounting Manager;* ***Soraya Harris,*** *Research Analyst*

2011 IN REVIEW

- Acquired a portfolio of six distribution assets located in the midlands of England comprising a total floor area of 654,219 square feet for HEREF III
- Disposed of Clemenceau office building in Paris in Q1 for HEREF I
- Executed several leases across the portfolio maintaining high occupancy levels and strong cash on cash returns for HEREF II and III
- Raised capital from several new investors for HEREF III

PRIVATE CAPITAL

Pursuing stability in the face of volatility

Private Equity

Harbert's private equity strategy has always been focused on Southeast-based, lower middle-market companies. Our strengths include our extensive relationships in the Southeast, our experience with the unique requirements of diligence for lower middle-market acquisitions, and the broad business experience of our professionals. As value investors, we are seeking well-established companies with strong management teams participating in niche industry segments. We typically invest in manufacturing, distribution, healthcare services, and specialty finance opportunities. In certain circumstances, we also invest in distressed opportunities where we leverage the team's broad turnaround and business experience.

As value investors, we are seeking well-established companies with strong management teams participating in niche industry segments.

Over the course of our investing history, we have not deviated from our commitment to the lower middle-market. It apprears the performance of lower middle-market companies has improved considerably over the past 12 to 15 months as bank lending has increased and the general economy has improved. Many of these companies survived the downturn by relying on cash reserves, thus, highlighting the benefits of lower leverage to mitigate downside risk and to provide upside financial flexibility.

In 2011, we did not make any new platform investments, but sold one portfolio company at a substantial profit. We added high-caliber people, completed two add-on acquisitions, refinanced debt on two of our portfolio companies, and developed new product offerings for some of our portfolio companies. We expect the number of attractive investment opportunities to increase over the next few years and believe that we are well-positioned to take advantage of this phenomenon.

Our core investment team has been working together for nearly a decade and brings together a complement of consulting, operating, restructuring, and financing experiences. Our active involvement in each of our investments is key to our investment approach. We believe our model is appropriately aligned to achieve superior returns for our investors and are excited about the opportunities that lie ahead.

Donald R. Beard
Vice President & Senior Managing Director

Winston H. Gillum, Jr.
Vice President & Managing Director

Donald R. Beard
Vice President &
Senior Managing Director

Winston H. Gillum, Jr.
Vice President &
Managing Director

ESTABLISHED 1999

Harbert Private Equity is a Southeast-based investment organization that provides equity financing to lower middle-market companies. We typically invest in well-established businesses in distribution, manufacturing, healthcare services, and specialty finance. Additionally, in situations where we have specific operating experience we may invest in distressed opportunities. Our mission is to create value for our investors by investing with strong management teams at low absolute valuations, directly sourcing investment opportunities in niche industry segments, and seeking companies that offer defensible organic growth initiatives and viable acquisition candidates.

TEAM MEMBERS: ***Donald R. Beard,*** *Vice President & Senior Managing Director;* ***Winston H. Gillum, Jr.,*** *Vice President & Managing Director;* ***J. David Harper,*** *Director of Investments;* ***Richard S. Davis,*** *Director of Investments;* ***Raymond J. Harbert Jr.,*** *Associate;* ***Elizabeth J. Stewart,*** *Associate;* ***John M. Allgood, Jr.,*** *Business Development Associate*

2011 IN REVIEW

- HPEF II currently holds positions in eight portfolio companies. HPEF III currently holds a position in one portfolio company.
- In September, HPEF II sold all its stock in Child Health Holdings, Inc., generating a return of approximately 2.4x invested capital.
- Both STX Healthcare Management Services, Inc. and TBT Holdings, Inc. each completed one add-on acquisition in 2011.
- The Investment Team continued to launch new industry initiatives and evaluate investment opportunities across a wide range of industries.
- Both PWI Holdings, Inc. and Dent-A-Med, Inc. refinanced their long-term debt, significantly reducing their cost of funds.

Venture Capital

Harbert's venture capital strategy seeks to identify and invest in emerging portfolio companies with high growth potential located in the Southeastern U.S. We proactively seek early growth stage companies that we believe have demonstrated significant progress towards their respective business models to mitigate technology and market adoption risk. We work to identify attractive company prospects early in their corporate existence, build strong relationships with the entrepreneurs, establish and track pre-investment milestones with these companies and assess their performance for several quarters, occasionally even several years, prior to investing. We target investments predominantly in emerging sectors of the IT and healthcare industries and seek to identify and diversify our investments among emerging sectors that we believe will experience significant rates of growth. While we seek to identify rapidly emerging sectors, we also believe that sector and industry diversification strategies are prudent principles of fund management due to the cyclical nature of the IT and healthcare industries.

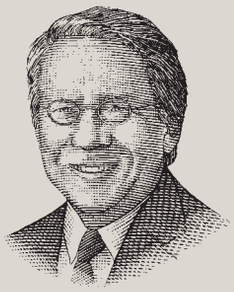
The Investment Team members are active participants in our entrepreneurial communities and seek to identify promising portfolio company prospects.

After a very challenging decade in the U.S. venture capital market, the asset class appears to be entering a cyclical upswing. After a difficult period in late 2008 and early 2009, the industry has shown steady improvements, showing positive returns for the last several quarters and appears poised to continue to improve based upon the improving liquidity environment. Liquidity generated through M&A has improved significantly in the recent years, and that trend has continued in 2011.

The Investment Team members are active participants in our entrepreneurial communities and seek to identify promising portfolio company prospects and build relationships with entrepreneurs outside of the traditionally compressed fundraising cycle. We believe our strategy of network building and investing in our market, particularly by maintaining multiple offices within the region, allows us to source opportunities from the region more effectively. We believe the geographic diversification of the portfolio is a reflection of the strength of our deal flow relationships with executives, entrepreneurs, attorneys, accountants, bankers and other venture capital investors in the Southeast Region.

William W. Brooke
Executive Vice President & Managing Partner

Wayne L. Hunter
Vice President & Managing Partner



William W. Brooke
Executive Vice President & Managing Partner

Wayne L. Hunter
Vice President & Managing Partner

ESTABLISHED 1999

Harbert Venture Partners is a venture capital firm focused on promising early growth stage companies in the healthcare and technology sectors headquartered in the Southeastern United States. We seek to deploy capital in companies that are positioned to accelerate their revenue growth, working with them to develop the quality leadership and operating platform needed to achieve exceptional market results and provide superior returns for our limited partners. We are disciplined investors who invest alongside our clients on equal terms and conditions.

TEAM MEMBERS: ***William W. Brooke,*** *Executive Vice President & Managing Partner;* ***Wayne L. Hunter,*** *Vice President & Managing Partner;* ***Thomas D. Roberts III,*** *Partner;* ***Robert L. Crutchfield,*** *Venture Partner;* ***Brian C. Carney,*** *Principal;* ***Thomas I. Walton-Cale,*** *Senior Analyst;* ***Jenna N. Spork,*** *Analyst*

2011 IN REVIEW

- Launched HVP III and made its first investment in Q32011
- Exited one portfolio company from HVP II to a Fortune 100 technology company
- Closed two new investments and three add-on investments in HVP II
- Ended the year with approximately $175 million in committed capital across all funds

Mezzanine Capital

Harbert Mezzanine Partners provides $3 to $15 million in subordinated debt and associated equity investments to private small- and middle-market companies in need of capital for organic growth, acquisitions, recapitalizations and management buyouts. We seek investment opportunities where we believe the risk of principal loss is limited and the prospective equity appreciation is high. We strive for long-term returns competitive with those of venture capital and private equity transactions, and the majority of our deals historically have been unsponsored. Our team has been working together since 1998 and has 77 years of collective investment experience in the commercial lending and mezzanine arena.

While the credit markets loosened up a bit in 2011, most small- and middle-market businesses are still unable to access capital from traditional lending sources. Senior lenders are operating under more stringent underwriting parameters and more conservative leverage multiples, and many alternative financing sources (i.e. finance companies, CLOs, hedge funds) have either gone by the wayside or have moved upstream toward "less risky," larger-sized businesses. As a result, there is a significant opportunity for mezzanine lending, especially in the small- to middle-market in which the Fund operates. We have been a flexible financial provider, willing to move up and down the balance sheet as needed, providing everything from senior debt to equity or some combination thereof. As a result, 2011 represented a record year of originations for our fund, and we fully anticipate this momentum to continue into 2012.

We seek investment opportunities where we believe the risk of principal loss is limited and the prospective equity appreciation is high.

In closing, we feel this is an excellent time to be a mezzanine lender. There are many small- and middle-market businesses with strong management teams in need of capital. We look forward to unearthing these companies in the years ahead.

John C. Harrison
Vice President & Senior Managing Director

John C. Harrison
Vice President &
Senior Managing Director

ESTABLISHED 2000

Harbert Mezzanine Partners is a private investment fund that targets creative ways to deploy debt capital in unique and defensible niches in order to achieve yields consistent with HMC absolute return goals, while using structures designed to preserve client capital.

TEAM MEMBERS: ***John C. Harrison,*** *Vice President & Senior Managing Director;* ***John S. Scott,*** *Managing Director;* ***Robert A. Bourquin,*** *Managing Director;* ***Alyce M. Ory,*** *Associate;* ***D. Andrew Tatman II,*** *Director of Investments;* ***Jack Davis,*** *Analyst;* ***Jack Richmond,*** *Analyst;* ***Tyler L. Augusty,*** *Analyst*

2011 IN REVIEW

- The Funds closed 10 new investments and seven add-ons for a total of $78 million.
- We exited seven companies.
- The Funds ended the year with a combined active portfolio of $258 million.
- HMP I repaid the remainder of its SBA debt.
- HMP II funded its last deal and began the wind-down process.
- HMP III made its first investment and launched fundraising in Q42011.

Independent Power

The Harbert Power Investment Team seeks to invest primarily in power generation plants that have contracts to sell their output, thereby minimizing market price and economic cycle risk as much as possible. Our view is that predictable cash flow streams from power assets, particularly from contracted assets, can provide investors with attractive returns, both on an absolute basis and when considered on a risk/reward basis.

We have been successfully investing in power assets for over 25 years, including for the past 15 years through our fund strategies. The success and growth of our funds have allowed us to build and retain an excellent power investment team. Our skills and experience as project developers, builders, owners, and managers, and not just as financial investors, pay dividends for us and for all of our investment partners in the portfolios we build.

There is a healthy secondary market for equity interests in independent power assets, and we anticipate there will continue to be good opportunities to acquire existing assets. As the ownership of power assets by independent, or non-utility, companies has grown over the past 25 years, the number of assets owned by financial, rather than strategic, investors has grown as well. The increased presence of financial investors in the space helps to ensure sufficient deal flow and investment opportunities as we look forward. Our clear focus on contracted power assets and our target individual asset equity investment size of $20-60 million will sometimes mean that we target assets that larger funds do not, which may lead to better results for our investors.

We also participate in the development of new power plants, and we seek to build our portfolios with a blend of existing assets and new plant development. We are currently working with developers on several projects which could become attractive investment opportunities for our funds. We are also closely following proposed federal air regulations which could lead to the retirement of a significant number of coal-fired plants over the next five-plus years, and which would create a need for new gas-fired generation to fill that void.

The success and growth of our funds have allowed us to build and retain an excellent power investment team.

2011 has been another good year for our power fund portfolios. The projects under construction have progressed nicely or have been completed. We were able to secure new power sales agreements for two of our California power plants, which, along with other favorable developments, have significantly increased the value of the California assets. We look forward to continued success in 2012.

Wayne B. Nelson, III
President & Chief Executive Officer,
Harbert Power, LLC

Patrick E. Molony
Executive Vice President & Chief Operating Officer,
Harbert Power, LLC

Wayne B. Nelson, III
President & Chief Executive Officer
Harbert Power, LLC

Patrick E. Molony
Executive Vice President &
Chief Operating Officer
Harbert Power, LLC

ESTABLISHED 1997

Harbert Power is a group of experienced, power industry professionals who have established a successful track record of investing in well-structured, contracted power assets for its investors. Our team's network, skills and reputation provide access to both new development opportunities and existing asset acquisitions. Our fund size reflects a focus on the more limited number of well-structured projects which are expected to provide a reliable income stream to our investors with less reliance on exit values to achieve our investment targets. We believe that, with their lower volatility and market risks, investments in well-structured power assets can provide superior returns to our investors.

TEAM MEMBERS: ***Wayne B. Nelson, III,*** *President & Chief Executive Officer;* ***Patrick E. Molony,*** *Executive Vice President & Chief Operating Officer;* ***Kenneth W. Kilgroe,*** *Senior Vice President & Controller;* ***Jeffrey W. Moore,*** *Managing Director;* ***A. Howell McBrayer,*** *Director, Plant Services;* ***G. Tatum Lassiter,*** *Vice President & Director of Investments;* ***J. Russell Martin,*** *Vice President & Director of Investments;* ***J. Clayton Hamblen, III,*** *Director of Investments;* ***Lora A. Retherford,*** *Tax Manager*

2011 IN REVIEW

- Astoria Energy II completed construction and began commercial operations in July – HPF III owns an interest in this 550 MW plant in Queens, New York.
- GWF Energy signed new 10-year contracts for its Hanford and Henrietta peaker plants in July, effectively extending the contracts through 2022, subject to California PUC approval – HIPF II, HPF III, and HPF IV collectively own 100% of GWF Energy, which was originally developed by HIPF II in 2001.
- We completed the successful sale of HPF III's position in the senior secured credit facilities of Longview Power, a 695 MW coal-fired plant in West Virginia, which completed construction during the year.
- Our fifth fund, HPF V, will be open for investors in 2012–we are planning a $300-500 million fund focused, like the previous Harbert power funds, on investing in contracted power generation plants.

Australian Private Equity

The Australian Private Equity Fund invests in lower-mid market Australian companies, with a geographic focus on the Victorian and South Australian markets. We will typically invest between A$5 million and A$15 milllion in each investment with a willingness to consider minority as well as majority investments.

Having spent more than 7 years investing in these markets, the investment team prides itself on its proprietary networks to generate investment opportunities with conservative valuations. We invest in growing businesses to support succession, expansion and traditional buyouts.

With the Australian economy distracted by events occurring both in Australia and around the world, new investment opportunities were harder to come by in 2011. The write-off of one of our investments was a great disappointment for the investment team and was driven largely by a number of significant changes in government policy which were outside of our control.

On a more positive note, the balance of the portfolio continues to perform at or above our investment case. With a number of new investments under consideration in the last quarter of 2011, we think it likely we will complete at least one new investment during the first quarter of 2012.

We invest in growing businesses to support succession, expansion and traditional buyouts.

As we turn to the new year, we are greatly encouraged by the increased levels of activity in the market and believe that the stabilization of global markets will make 2012 a strong investing year for the Fund. Given our geographic focus, the limited number of competing funds in our space, and high demand for capital, we are confident we will be able to select the very best investments for our investors.

Jeremy E. Steele
Vice President & Senior Managing Director

Jeremy E. Steele
Vice President &
Senior Managing Director

ESTABLISHED 2009

Harbert Australian Private Equity is Melbourne-based with a focus on private equity and hybrid mezzanine debt investments in target companies valued between A$15-50 million. We write equity cheques in the A$5-15 million range and have positioned ourselves to be the leading provider of private equity in the Victorian and South Australian lower-middle markets. We are an event-based investor that looks for investment opportunities that require expansion capital, MBO/MBI situations, succession transitions, spin offs and industry roll-up platform plays. Our fund is registered in Australia as a venture capital limited partnership and as an incorporated limited partnership.

TEAM MEMBERS: ***Jeremy E. Steele,*** *Vice President & Senior Managing Director;* ***Robert P.A. Whitaker,*** *Senior Associate;* ***Michael R.J. Da Gama Pinto,*** *Senior Associate*

2011 IN REVIEW

- In late 2010, HAPE I invested in its third portfolio company, Sumo Visual Group, a leading player in the visual merchandising market based in Melbourne, Victoria. HAPE owns 60% of this business.
- While the Fund took a write-off in one of its investments in 2011, the balance of the portfolio continues to perform at or above expectations.
- Significant deal activity in the last quarter of 2011 is likely to see HAPE I fully invested in Q1 2012.
- With the completion of these new investments, we expect to make a first close on HAPE II with partner contributions in early 2012.

ABSOLUTE RETURN STRATEGIES

Opportunity through calculated risk

Credit Opportunities

We launched the Harbert Credit Opportunities Fund during February 2011 to take advantage of opportunities in the levered credit market. The Fund seeks to generate absolute returns by focusing primarily on long and short investments in the debt obligations of middle-market companies undergoing operational and/or financial stress. We believe that market trends, combined with a continual structural inefficiency in the middle-market, will provide a robust pipeline of investment opportunities for years to come.

Our view of the state of the global economy has been cautious. Out-of-control spending at both the sovereign and consumer levels has collectively contributed to significant leverage, which pervades the system. This ever-present vicious cycle of borrowing and spending beyond our means is not sustainable. While efforts evolve to postpone the pain, ultimately a combination of reduced spending and an increase in taxes is required to delever. These necessary, yet painful, cuts in spending and tax increases will further strain the economy.

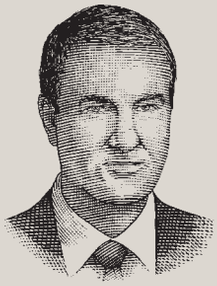
We believe that market trends, combined with a continual structural inefficiency in the middle-market, will provide a robust pipeline of investment opportunities for years to come.

Similar to the global economy, many middle-market companies with highly levered balance sheets are struggling, and it is our expectation that many of these companies will continue to experience declining fundamentals. In turn, they won't be able to service their debt, and a balance sheet restructuring will be required.

Our long investments during the year consist/(ed) principally of stressed and distressed senior secured bank debt as we believe higher quality credits outperform during turbulent markets as investors seek quality and a safe haven. Our short investments target the junior capital of issuers we expect to restructure. In the current market environment, this is the part of our investment strategy where we expect to generate significant alpha.

2011 was an impressive start for the Harbert Credit Opportunities Fund. We look forward to 2012 and aim to generate absolute return throughout the credit cycle.

Gregory A. Jordan
Vice President and Senior Managing Director



Gregory A. Jordan
Vice President &
Senior Managing Director

ESTABLISHED 2011

The Harbert Credit Opportunities Fund seeks to generate absolute returns by focusing primarily on long and short investments in the debt obligations of middle-market companies undergoing operational and/or financial stress. Long investments will principally consist of a portfolio of stressed and distressed debt, including bank debt, securities (principally publicly traded high-yield debt) and private placements. Additionally, we may invest in the debt of companies reorganizing in bankruptcy and may also receive equity or equity-related securities of an issuer, primarily in exchange for debt instruments, as part of a restructuring transaction. Short investments will consist primarily of junior capital, including high yield bonds and public equities.

TEAM MEMBERS: ***Gregory A. Jordan,*** *Vice President & Senior Managing Director;* ***Heather L. Barlow,*** *Managing Director;* ***Matthew J. Sandschafer,*** *Director of Investments*

2011 IN REVIEW

- Launched the Fund on February 1, 2011
- Long selective senior credit and short junior capital resulted in low downside exposure and reduced volatility for the year
- Short exposure contributed positive returns to the portfolio during 2011
- Identified over 30 companies that we believe will undergo a financial restructuring in the near term
- Built out the Harbert Credit Opportunities Fund team
- Began marketing the Fund globally during the third quarter

Event Opportunities

Harbert Event Opportunities Fund endeavors to deliver superior, absolute returns by actively managing a portfolio of equity and equity options via the following complementary strategies: Merger Arbitrage, Event-Driven and Dynamic Hedging. The team has amassed nearly twenty cumulative years together at HMC, investing in a disciplined and systematic manner while successfully navigating the turbulent markets of the past five years.

As we entered 2011, a number of factors pointed to a dramatic rise in mergers and acquisitions activity: slow organic growth in developed markets, record corporate cash balances, reasonable equity valuations, relative stability in financial markets and rising CEO confidence. Equity markets validated this thesis, rewarding acquirers for pursuing compelling, synergistic M&A opportunities. Deals totaling about $1.4 trillion were announced in the first half of the year, a 35% increase over the same time last year.

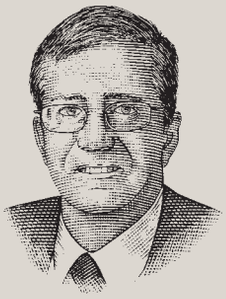
This enthusiasm began to wane in the summer, eventually devolving into near panic on concerns about the European debt crisis and our own political dysfunction. In response, the HEOF team significantly de-risked during this time, reconfiguring the portfolio around a select number of the highest-conviction merger and event names. Despite the deceleration in merger velocity, the arbitrage strategy proved to be very lucrative in 2011. Our unconventional approach to trade structuring, particularly in hostile situations, led to successful investments in Dollar Thrifty Automotive Group, Temple-Inland and Cephalon.

The team has amassed nearly twenty cumulative years together at HMC, investing in a disciplined and systematic manner while successfully navigating the turbulent markets of the past five years.

We believe that many potential transactions are on the shelf right now given the volatility in the markets but expect them to resurface as we move through the instability. Importantly, unlike in 2008, most announced deals continue to close and a number of large leveraged buyouts have been announced and consummated amidst the turmoil, including the largest LBO since 2007. The event landscape looks fruitful as well, given the sharpened focus on corporate reorganizations as a way to drive shareholder value.

The Harbert Event Opportunities Investment Team remains confident that our bottom-up, exhaustive research process, combined with a disciplined market hedge and decades of investment experience, will yield even more "diamonds in the event-driven rough."

Neil B. Kennedy
Vice President & Senior Managing Director



Neil B. Kennedy
Vice President &
Senior Managing Director

ESTABLISHED 2006

Merger arbitrage hedge funds tend to produce stronger returns in periods of increasing merger activity. Harbert Event Opportunities Fund seeks to generate superior absolute returns through an actively-managed portfolio of both merger arbitrage and event-driven listed equity and equity option investments. Through a combination of experience, dynamic hedging, selectivity and avoidance of leverage, the team has produced a return stream with low correlation to other funds in these strategies.

TEAM MEMBERS: ***Neil B. Kennedy,*** *Vice President & Senior Managing Director;* ***John H. Frank,*** *Director of Investments;* ***Niraj Gupta,*** *Director of Investments;* ***Michael P. Reinking,*** *Trader*

2011 **IN REVIEW**

- Global M&A volume increased approximately 8% to over $2.5 trillion driven by growth in North America.
- Conditions for M&A stimulated deal activity in the first half of the year; we expect that transactions will accelerate in 2012 given pent-up demand (36% of companies in a recent survey indicated a desire to pursue M&A in 2012).
- Event investments proved challenging as a number of high-conviction investments were overwhelmed by broader macro concerns; however, we did invest in a number of lucrative energy-related special situations.
- HEOF's merger arbitrage portfolio did exceedingly well in 2011, generating gains from hostile M&A activity and creative deal structuring.
- The Fund completed five years in operation at HMC with all original team members intact.

Value Fund

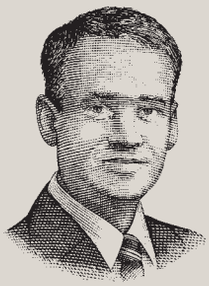
The Harbert Value Fund is a fundamentally-based, long/short equity fund. Our mission is to provide attractive cumulative returns over a long time period without incurring excessive risk of material, permanent impairment of capital. Our team of five investment professionals is focused on opportunistically identifying new investments, assessing absolute value, adding value through single name shorting and avoiding large losses through both security selection and portfolio construction.

We invested meaningful capital, both long and short, during the increased volatility and laid the groundwork for higher future returns.

We entered the year finding it difficult to identify compelling long investments and surprised by investors' disregard for the risks of owning many of the best performing equities. These dynamics began to shift during the summer as severe macro concerns reemerged. The ensuing market volatility delivered an increased level of investment opportunities while highlighting how quickly things can change for investments where absolute value has been disregarded. We invested meaningful capital, both long and short, during the increased volatility and laid the groundwork for higher future returns. With portfolio developments remaining supportive during this stretch despite the disappointing mark to market impact from our long investments, the fund closed the year with a portfolio we believe is well positioned for the future.

The increased volatility observed in the second half of 2011 appears likely to continue. The significant issues facing governments and consumers alike, namely an overabundance of debt, are real, and the solutions do not appear easy or quick. While macro uncertainty and high volatility can be unsettling, these conditions are ultimately beneficial to the disciplined investor. Grounded in our value discipline and impairment sensitivity, and with a proven track record of achieving short profitability while weathering extreme turmoil, we look forward to the opportunities the volatility can continue to offer in the year ahead.

Todd D. Nunnelley, CFA
Vice President & Senior Managing Director



Todd D. Nunnelley, CFA
Vice President &
Senior Managing Director

ESTABLISHED 2007

The Harbert Value Fund is a fundamentally-based, long/short equity fund. Our mission is to provide attractive cumulative returns over a long time period without incurring excessive risk of material or permanent impairment of capital. Our disciplined emphasis on absolute value serves as the foundation for our opportunistic investment process.

TEAM MEMBERS: ***Todd D. Nunnelley, CFA,*** *Vice President & Senior Managing Director;* ***A. Daniel Thomasson, CFA,*** *Director of Investments;* ***Zachary P. Turnage, CFA,*** *Director of Investments;* ***Clayton C. Williams, CFA,*** *Senior Analyst;* ***T. Partlow Willings,*** *Analyst*

2011 **IN REVIEW**

- Generated a modest positive return in the face of high market volatility
- Achieved solid profitability in the short portfolio
- Identified compelling opportunities created by the volatility
- Invested material capital both long and short
- Maintained cumulative profitability from both our long and short investments
- Closed the year with an above average level of investments with strong future contribution potential

HARBERT REALTY SERVICES

Stability through diversity

Harbert Realty Services

Harbert Realty Services is a full-service commercial real estate firm that conducts business for its own account as well as others throughout the Southeastern United States. HRS operating divisions offer a diverse palette of real estate services to its clients including traditional brokerage services, property management and leasing, asset management, corporate real estate services, real estate lease administration and development services.

In what finally appears to be an improving real estate market, HRS continues to approach the real estate service and development business with the same discipline and industry acumen that helped us weather the economic storm. Our diversity in service platforms has provided alternating engines of stability and continued growth.

We have effectively used our resources, diversity and skills to manage the near term and prepare for the long term as the real estate cycle shifts from varying property types and markets.

We continue to favor the healthcare, retail and multifamily disciplines within our industry and seek service and development opportunities in these segments that may be overlooked by others. With our recent acquisition of Rock Apartment Advisors, a regionally dominant multifamily brokerage and advisory company, HRS has strengthened its offering of real estate services to include all real estate disciplines.

We believe our staying power and positioning in the Southeast markets on the cusp of growth will translate to new opportunities and increased business in these areas. We have effectively used our resources, diversity and skills to manage the near term and prepare for the long term as the real estate cycle shifts from varying property types and markets.

Healthcare real estate is a burgeoning segment in which we have made initial inroads. This segment is unorganized at the local market level, and we plan to aggressively seek out additional openings for all of our service lines in this segment to include leasing, property management, brokerage and development.

We remain optimistic about our business, market position and the long-term prospects for our industry.

Harry M. Lynch
President & Chief Executive Officer
Harbert Realty Services, Inc.

Harry M. Lynch
President & Chief Executive Officer
Harbert Realty Services, Inc.

ESTABLISHED 1981

Harbert Realty Services is a full-service commercial real estate firm that provides development and brokerage services for office, retail and multifamily disciplines throughout the Southeastern United States. We also provide corporations real estate services when outsourcing is an option to in-house execution to real estate needs.

TEAM MEMBERS: ***Harry M. Lynch,*** *President & Chief Executive Officer;* ***David R. Williams,*** *Executive Vice President & Chief Operating Officer;* ***Mary C. Echols,*** *Executive Vice President of Financial Reporting;* ***W. Dean Nix,*** *Senior Vice President;* ***Stephen J. Ankenbrandt,*** *President, Rock Advisors;* ***D. Ryan Griffin,*** *Senior Vice President, Rock Advisors*

2011 IN REVIEW

- Broke ground on $10 million Publix shopping center development
- $169 million in multifamily apartment sales under contract
- Brokered over 560,000 square-feet of office
- Named as receiver for multiple distressed assignments by lenders

HERO
Harbert Employees Reaching Out

Stacy Landry knew the storms approaching the Shoal Creek Valley were not normal spring showers. Fearing the worst, she collected her family of four and headed to a neighbor's house joining a number of others from their community. The tornado descended immediately. Stacy was able to shield her daughter from flying debris, crushing her right arm in the process. The house in which they sought refuge was completed destroyed, leaving 17 people scattered in a nearby field. The Landry's home a few miles away, was also completely destroyed.

Without the volunteers of HMC who not only donate their time, but also their money, we wouldn't be able to have the opportunity to help our community.

Thirteen people died that day in Shoal Creek Valley. Stacy and everyone in the home survived, but all sustained injuries. Moments following the storm, Stacy's two sons, both in the military, started aiding victims scattered in the field. Stacy also assisted people with life-threatening injuries, even refusing treatment until everyone else had received medical attention.

For HERO, the opportunity to rebuild the Landry's home was a small token of appreciation for the true service and sacrifice the Landrys made that day. Working with the United Way, the Community Foundation of Greater Birmingham and several community churches, HERO was able to rebuild the Landry home.

2011 was a demanding year for the HERO Foundation. Tornadoes devastated several regions in Alabama, causing statewide destruction, and for HERO, the opportunity to help victims of these tragedies emerged in a capacity much larger than anything the Foundation has confronted before.

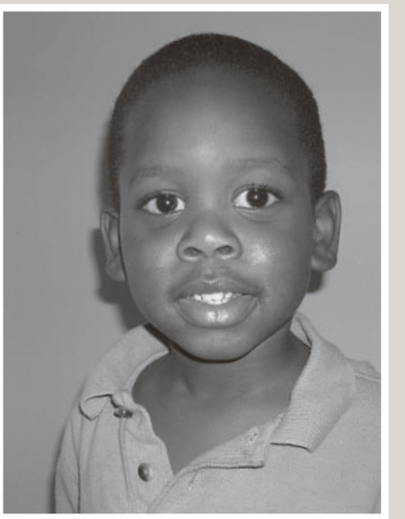
"To not only work for a great company, but to be able to have the resources within HMC to help the community and make a difference in the lives of people is huge," explained Sonja Keeton, Senior Vice President and Chief Administrative Officer for HMC. Without the volunteers of HMC who not only donate their time, but also their money, we wouldn't be able to have the opportunity to help our community on this grand of a scale."

And, indeed, HMC employees did volunteer their time. From immediately gathering supplies to drop off at various locations, to going door-to-door in hard-hit locations to offer assistance, HMC employees have been volunteering. On May 25, 2011, dozens of employees also participated in debris removal in Pleasant Grove, Alabama, one of the hardest hit areas in Alabama.

Since 1998, the Foundation has helped many individuals and families enduring hardships and in need of temporary assistance. The Foundation has stepped in when no other safety net was available, including those affected by such tragedies as the attacks of September 11, 2001, Hurricane Katrina and the tornadoes that devastated multiple areas of Alabama on April 27, 2011. During 2011, HERO awarded 105 grants totaling $593,742.

The committees that manage HERO are made up of employees from across Harbert Management Corporation and its affiliates; HERO's resources come from HMC's employees, its affiliates and from various fundraisers. During the 14 years since HERO's inception, HMC affiliates and employees have distributed approximately $2.5 million to people and communities in need. Most of our referrals for help come from partners in the community, including Children's Hospital, Alabama Children's Rehabilitation Services and the Alabama Head Injury Foundation, to name a few.

The Landrys in front of their newly rebuilt home, completed with assistance from the HERO Foundation.



HMC HERO grants bring Christmas to many children.

A large team of HMC HERO volunteers work to restore the hard-hit area of Pratt City, Alabama, devastated by the April 2011 tornados.

HMC HERO volunteers remove debris left by a tornado in Pratt City, Alabama.

Management

EXECUTIVE OFFICERS

Raymond J. Harbert**
Chairman & Chief Executive Officer

Michael D. Luce**
President & Chief Operating Officer

David A. Boutwell**
Executive Vice President & Chief Financial Officer

William W. Brooke*
Executive Vice President & Managing Partner
Venture Capital

Charles D. Miller*
Executive Vice President & Global Head of Distribution

Joel B. Piassick
Executive Vice President

Sonja J. Keeton
Senior Vice President & Chief Administrative Officer

John W. McCullough
Senior Vice President, General Counsel & Secretary

Thomas M. Hicks
Vice President & Director of Risk Management

INVESTMENT PROFESSIONALS

REAL ESTATE

United States Real Estate

Michael P. White
Vice President & Senior Managing Director

Jon-Paul Momsen
Vice President & Senior Managing Director

European Real Estate

Scott D. O'Donnell
Vice President & Senior Managing Director

Tor V. Tveitane
Managing Director

PRIVATE CAPITAL

Private Equity
Donald R. Beard
Vice President & Senior Managing Director

Winston H. Gillum, Jr.
Vice President & Managing Director

Venture Capital
William W. Brooke*
Executive Vice President & Managing Partner

Wayne L. Hunter
Vice President & Managing Partner

Mezzanine Capital
John C. Harrison*
Vice President & Senior Managing Director

Australia Private Equity
Jeremy E. Steele
Vice President & Senior Managing Director

Independent Power
Wayne B. Nelson III
President & Chief Executive Officer
Harbert Power LLC

Patrick E. Molony
Executive Vice President & Chief Operating Officer
Harbert Power LLC

ABSOLUTE RETURN STRATEGIES

Credit Opportunities
Gregory A. Jordan
Vice President & Senior Managing Director

Event Opportunities
Neil B. Kennedy
Vice President & Senior Managing Director

Value
Todd D. Nunnelley
Vice President & Senior Managing Director

HARBERT REALTY SERVICES, INC.

Harry M. Lynch
President & Chief Executive Officer
Harbert Realty Services, Inc.

* Board of Directors Member
** Board of Directors and Executive Committee Member

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