Letter from Chuck Clough

January 31, 2012

To Our Investors:

We had a challenging year in 2011. The Global Allocation Fund, Global Equity Fund and Global Opportunities Fund returned 7.1%, 7.7%, and 6.8%, for the quarter and -9.5%, -10.0%, and -10.4% for the year, respectively. By comparison, the S&P 500[1] and MSCI World Index[2] returned 11.8% and 7.7% for the quarter and 2.1% and -5.0% for the year, respectively. The S&P 500 was the only major global index to rise during the year, and then only because of dividends. Most other indices suffered double digit declines. Many emerging market indexes declined 15-30%; the Hang Seng Composite Mid Cap[3] Index fell 27%.

During the quarter, our long positions in the Consumer Discretionary and Energy sectors contributed to performance and shorts in the Materials and Industrials sectors detracted. For the year, US and Chinese banks, energy stocks and Chinese consumer companies were the biggest detractors.

Few strategies worked in 2011, and those that did worked only marginally. Most long/short strategies were difficult to implement as most stocks rose or fell simultaneously regardless of fundamentals. Some of the reasons for the Fund's underperformance, however, were self induced. We were clearly early in our purchases of US banks but the positions were originally built as a pair trade against short positions in European banks. Now they are undervalued, we think, and have begun to perform better.

We continue to have a low interest rate bias for 2012. We believe the Federal Reserve's recent announcement that they would leave the overnight funding rate at its current zero to 25 basis point[4] range until late 2014 further supports our view. In 2011, the Fund's allocation to 10 and 30 year Treasury bonds produced high teen's returns. The Funds have taken some gains so far in 2012, but would look to add to the positions if attractive entry levels present themselves. The Funds also saw gains in their high yield corporate bond allocation in 2011 as well. The Funds have realized profits and reduced their positions in corporate debt to start 2012. Like Treasuries, we will look to add to corporate debt if pricing comes back from current levels. In addition, although we had reduced our emerging market exposure to a group of core long term, high conviction investments, the Fund was not spared the intensive liquidation emerging markets faced during the year. Finally, although the price of oil remained strong during the year reflecting global production limits, the stocks declined.

The good news in all of this is we believe that lower stock prices make the opportunity set for equities in 2012 that much greater. For one, investors are very bearish. They set a new record for equity selling in the last weeks of 2011 by redeeming $1.5 billion from equity mutual funds each week for six weeks running.

The last time that much was pulled out of equity funds in consecutive weeks was for five weeks running in 2008. Barron's noted the average money fund these days pays just two basis points. Bank deposits often provide negative returns once fees are deducted. Yet US investors poured $91.7 billion into money funds in November and December alone and they now sit on a reported $13 trillion in cash assets. US businesses have built a cash hoard of over $2 trillion. Over $1.7 trillion of excess reserves sit in the US banking system and the European Central Bank (ECB) is aggressively expanding its balance sheet. It is already larger than that of the Federal Reserve, and this before it holds the second round of LTRO (Long-Term Refinancing Operation) financing this February. The Japanese Central Bank holds in excess of $1.5 trillion in foreign exchange reserves. The Chinese Central Bank has more than $2.5 trillion. Quite simply, there is an amazing amount of stranded liquidity in the world.

Our fundamental view of the forces that will drive worldwide equity prices has not changed. We believe OECD (Organization for Economic Cooperation and Development) interest rates will likely remain extremely low as inflation wanes and banking systems contract. In this environment, companies with reasonable growth prospects and high cash flows are extremely attractively priced. Growth in the OECD should be tepid. But confounding skeptics, we believe growth in China will continue to be robust, particularly in the consumer sector. We also think areas in the energy sector provide very attractive growth prospects.

We are focusing on companies that are growing and generating rising free cash flow[5] yields, our so-called "compounders." These investments are focused in a limited number of industries.

We believe technology, in particular, offers top line growth, rising cash flow and substantial dividend potential. For example, the failure of Hewlett Packard's[6] Touchpad cemented the dominance of Apple[7] and Google[8], along with Microsoft[9] on the come, as the key providers of mobile operating systems. The first two have dominant market shares and the loyalty of application developers. Microsoft, a long-time holding of the Fund, could emerge on the scene in 2012 with a highly competitive product. All sell at very low price-to-earnings ratios[10] and promise double digit top line growth looking out several years. Many of these companies could easily fund higher dividend payouts and the pressure to do so should build.

We have invested in the rise of mobile payment systems. Smart phones are estimated to increase their share of the mobile phone population to 70% by 2014. As they do, mobile payment opportunities including mobile commerce and the emergence of online and offline shopping should rise sharply. Ecommerce represents about six percent of global retail sales but that should grow as smart phones take share of retail sales. Fund holdings include the payment processors, such as MasterCard[11] and Visa[12], whose revenues should accelerate due to the explosion in mobile phone payments. We also own eBay[13], whose primary growth engine is the online payment facilitator PayPal.

Companies that produce media content have strong pricing power and growing free cash flow as entertainment is streamed through more and more outlets. News Corp[14] is expected to buy back close to eleven percent of its market capitalization in 2012, and Viacom[15] is expected to return 80% of its current capitalization through dividends and stock buybacks over the next five years.

In a low interest rate environment, we continue to believe that a premium should be placed on reliable cash flows. We continue to believe that Agency MBS REIT's and Business Development Companies (BDC's) offer some of the most attractive dividend yields in the markets today. Agency MBS REIT's should benefit from a Federal Reserve that is on hold as well as a positive slope in the yield curve. We think they could continue to produce 12% to 17% dividend yields. The five MBS REITs the Funds currently hold all trade at roughly book value[16], leaving room for price appreciation in addition to dividend income in 2012.

Business Development Companies are REIT like structures that provide financing to middle market companies that are too small to access funding from the public markets. As Wall Street Investment Banks shrink their balance sheets, there are fewer institutions to finance the middle market. This environment gives BDC's leverage in terms of price, points, and covenants with the companies they finance. The Funds invest in the most conservative BDC's is the sector in terms of credit quality and leverage. The seven BDC's the Funds invest in currently pay dividends between 7% and 11%. Like the MBS REIT's, the BDC's currently price at book value which leaves potential price appreciation in addition to the dividends for 2012.

Finally, we are invested in selected aerospace and industrial companies with profit sources independent of the business cycle. The growing commercial aircraft fleet requires growing parts inventories and companies like TransDigm Group should compound out a free cash flow yield above ten percent.

Contrary to consensus, we think emerging markets will recover in 2012. Asian and Brazilian markets have traded poorly for the past eighteen months, but this should change as their central banks inject liquidity into their banks. Moreover, the true source of sovereign risk is being re-evaluated. Bond issuance by countries in Asia and Latin America is finding far better reception than that of the developed nations. Dealogic notes that emerging government entities sold $11.3 billion in bonds in the first two weeks of 2012, and even smaller issuers like the Philippines, Indonesia and the municipality of Shanghai can regularly access the credit markets. Brazil just sold a $750 million global bond issue at 3.5%. Large global investment managers such as Blackrock Inc. are launching mutual and exchange traded funds in the growing market for Yuan denominated bonds. To us, this signals that the investment is beginning to flow back to emerging markets.

A cooling off in Chinese real estate is equity bullish, we believe. China's household sector holds the equivalent of the combined GDP's of Brazil, India and Russia in bank deposits. Additionally, government policy makers have proposed market friendly reforms such as investing state pension assets in stocks. These policies usually work in China. Finally, many Chinese consumer stocks are attractively priced. For example, the Fund holds Bosideng (3998-HK)[17], a major clothing manufacturer and retailer whose stock offers an 8% yield, sells at an 10x p/e ratio, and looks to grow at a 15-20% rate for the foreseeable future.

Investing in the transition of China's profit cycle to the consumer will again be a major strategy in 2012. The Fund owns companies in the retail, auto, and financial industries. McKinsey and Co. notes that China's middle class (incomes of $8,000 - $30,000) is projected to rise from 135 million to over 200 million by 2015. Obviously, China's economy cannot continue to grow debt at recent rates and government will be called upon to recapitalize the nation's banks. However, the market is pricing in a far too severe growth slowdown, in our opinion. Domestic consumption is far less credit and resource intensive. It can be supported not only by liquidation of China's huge stock of domestic savings but also rapid productivity and personal income growth.

The options for investing in China's consumption economy are plentiful. Retail sales reported by department stores rose at a 22% annual rate, measurably faster than the 16% rate of overall consumption reported in the government GDP accounts. China is already the world's third largest consumer market. It is already the largest auto market. It houses the largest population of Internet users and boasts a growing luxury goods market.

We believe more than ever that our Hong Kong research presence gives us a special perspective on Asia. Hong Kong is China's financial gateway to the world. Ninety three percent of Hong Kong's GDP is earned by servicing the world's needs. It is no longer simply an export hub but the source of sophisticated services. Its stock exchange is now the world's second largest after New York and more equity capital was raised there through IPO's than any other market in 2011. It is worthwhile noting that Tokyo, at its peak, never rose to the status of New York or London. Hong Kong has the advantage of being at the center of Asia and is the second most visited city in the world after New York. Hong Kong will not only be the location for off shore Renmimbi transactions but it borders Guangdong Province which has a population of 104 million, a larger population than the UK.

US banks face an environment of extremely depressed capital markets activity, but do so in a relatively safe condition. The Federal Reserve has been buying government and mortgage securities from banks for three years, forcing close to $1.7 trillion in excess reserves into America's large banks. Liquid assets are substantially in excess of their short-term borrowings. As endless as they seem today, litigation and mortgage related costs should eventually fade away. Some of those free reserves sit in foreign subsidiaries, and since Europe's banks are being forced to reduce assets by an estimated €950 billion over the next two years, America's banks can grow share. This is part of Citigroup's[18] attractiveness. The company's fourth quarter report was disappointing, but Citi's bad bank[19] is now down to 11% of total assets. The stock sells at 0.6x tangible book[20] and 6x 2012 earnings, and it will be leveraged to a capital markets recovery.

Opportunities still abound in energy even though the market did not agree with us in 2011. Apart from dislocations in the Middle East, global crude inventories are being drawn down suggesting production is struggling to meet demand. Drilling has to compensate for three to four percent annual depletion rates for existing crude fields while OECD figures indicate no slowdown in global crude demand, even in the face of weak developed economies and slowing emerging economies. We have hedged some of our energy investments with short positions on natural gas focused producers and service stocks. With natural gas inventory at an all time high, we think there will be a slowdown in US land drilling focused on natural gas production.

What was particularly frustrating about 2011 was the fact that our fundamental analysis, for the most part, proved correct. For many of our holdings, earnings rose as the year progressed, balance sheets improved, yet the price of many of these equities declined substantially to valuation levels we think are unnecessarily low. Reflation will likely be an important theme in 2012 and we are certainly positioned to capture it. We are appreciative of your patience and support in a period of poor performance. Fortunately, such periods are rare for us. We think our long book has a great deal of upside. The market refused to agree with us in 2011, but the fundamental behavior of our companies was strong, oftentimes stronger than we estimated and as central bank liquidity builds in 2012, we believe we can extend our longer-term outperformance

Sincerely,

Charles I. Clough, Jr.

Past performance is not a guarantee of future results.

Foreign investing involves special risks such as currency fluctuations and political uncertainty.

Forward-looking statements are based on information that is available on the date hereof, and neither the fund manager nor any other person affiliated with the fund manager has any duty to update any forward-looking statements. Important factors that could affect actual results to differ from these statements include, among other factors, material, negative changes to the asset class and the actual composition of the portfolio.

Clough Capital Partners, L.P. is a Boston-based investment management firm that has approximately $3.6 billion in assets: $1.6 billion in hedge funds and institutional accounts, $2.0 billion in three closed-end funds and $68 million in one open-end fund.*

**As of December 31, 2011.*

[1] Second most widely followed index of large-cap U.S. stocks
[2] Index including collection of stocks of all developed markets
[3] Index of mid-cap Hong Kong stocks
*Please note: You cannot invest directly in an Index
[4] Unit equal to 1/100 of a percentage point
[5] Measure of financial performance, calculated as operating cash flow minus expenditures
[6] Not held in GLV, GLQ, GLO as of 12/31/11
[7] 3.03% of GLV, GLQ and 3.02% of GLO as of 12/31/11
[8] 0.72% of GLV, 0.73% of GLQ and GLO as of 12/31/11
[9] 2.63% of GLV, 2.64% of GLQ, and 2.65% of GLO as of 12/31/11
[10] Price per share relative to earnings
[11] 0.96% of GLV, 0.95% of GLQ and GLO as of 12/31/11
[12] 0.90% of GLV, GLQ and GLO as of 12/31/11
[13] 0.48% of GLV, GLQ and GLO as of 12/31/11
[14] 0.63% of GLV, GLQ and GLO as of 12/31/11
[15] 0.54% of GLV, GLQ, GLO as of 12/31/11
[16] Accounting value of a firm; total assets minus intangible assets and liabilities
[17] 0.63% of GLV, GLQ, GLO as of 12/31/11
[18] 0.98% of GLV, 0.99% of GLQ and GLO as of 12/31/11
[19] Financial institution created to hold nonperforming assets owned by state guaranteed bank
[20] Value of firm's equity after removing value of intangible assets

Fund Performance^ as of 12/31/2011

GLV - Global Allocation Fund		Annualized				
Inception date 7/28/2004	3 Month	YTD	1 Year	3 Year	5 Year	ITD
NAV	7.05	-9.51	-9.51	14.04	0.53	5.49
MKT	5.22	-12.37	-12.37	15.15	-2.40	2.60
S&P 500 Index Fund	11.80	2.11	2.11	14.11	-0.25	4.00
MSCI World Index	7.73	-5.01	-5.01	11.81	-1.76	4.73

GLQ - Global Equity Fund		Annualized				
Inception date 4/27/2005	3 Month	YTD	1 Year	3 Year	5 Year	ITD
NAV	7.65	-10.02	-10.02	14.95	0.26	4.43
MKT	5.62	-13.65	-13.65	17.63	-2.31	1.10
S&P 500 Index Fund	11.80	2.09	2.09	14.13	-1.24	3.47
MSCI World Index	7.73	-5.01	-5.01	11.81	-1.76	3.43

GLO - Global Opportunities Fund		Annualized				
Inception date 4/25/2006	3 Month	YTD	1 Year	3 Year	5 Year	ITD
NAV	6.82	-10.43	-10.43	12.79	0.26	1.03
MKT	2.64	-14.54	-14.54	14.75	-2.16	-2.98
S&P 500 Index Fund	11.80	2.09	2.09	14.13	-1.24	1.45
MSCI World Index	7.73	-5.01	-5.01	11.81	-1.76	1.04

^ Please see the full fund portfolio holdings under "Fund Information" on the Clough Global Website.