



THETA
CAPITAL MANAGEMENT B.V.

DE LAIRESSESTRAAT 180
1075 HM AMSTERDAM
THE NETHERLANDS
T +31 20 5 722 733
F +31 20 5 722 744
I WWW.THETACAPITAL.COM

Theta Deep Value Fund

Quarterly Investor Letter – Q4 2006

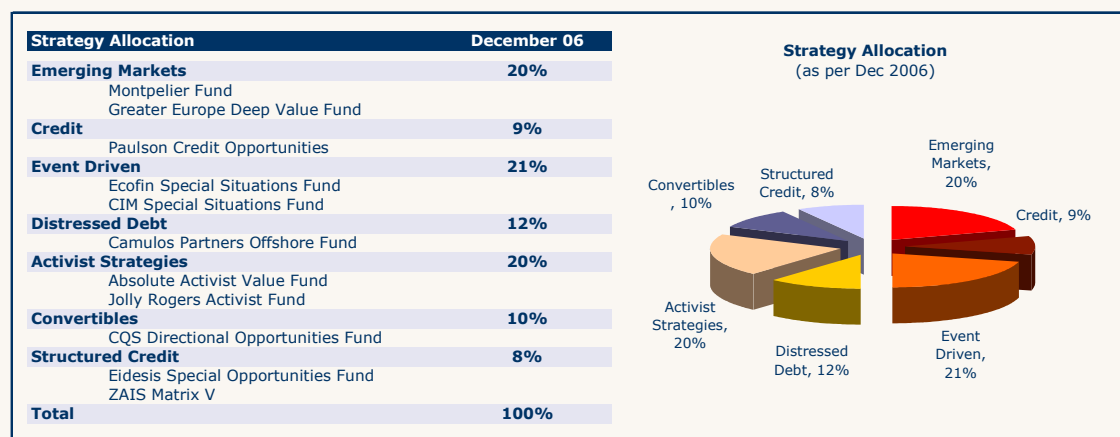
Theta Capital Management
January 2007

Dear investor,

The Theta Deep value fund had a very strong performance of +9.6% in the fourth quarter, bringing the year-to-date performance since July 2006 to +8.83%. In October the fund returned +2.55%, with two activist managers accounting for most of the performance: the Jolly Rogers Activist Fund returned over 13% and the Absolute Activist Fund added 6% to their portfolio. The only negative performance came from the Paulson Credit Opportunities Fund which was down almost 3.5% due to a rally in sub-prime MBS caused by an overwhelming demand from CDO managers. November was another strong month, +2.58%, with all strategies delivering a positive performance. Emerging Markets managers added about +2% to the portfolio and event driven strategies added +0.9%. December closed the year on a very strong note with a performance of +4.19%, generated across all investment strategies.

	October	November	December	2006
NAV (October Series)	1025.5	1051.99	1096.04	1096.04
Monthly performance	2.55%	2.58%	4.19%	
Cumulative performance	2.55%	5.20%	9.60%	9.60%

Note: All figures in EUR, net of all fees for the October Series (since Theta Deep Value Fund has been fully invested). As the fund's independent administrator provides an official NAV on a quarterly basis, October and November numbers are estimates provided by the manager.



Following the January opening, the Theta Deep Value fund has EUR 62 million under management. Although the fund will essentially be closed for new investors, we will each quarter make an assessment as to the capacity available with the underlying funds. Based on that information we will decide the amount of new money, if any, the Theta Deep Value fund can absorb during that quarter. We therefore suggest that interested investors contact us.

Fourth Quarter Performance Review

Greater Europe Deep Value fund (Emerging Markets Equity) returned 26% in Euros in the fourth quarter. After a difficult third quarter, the Russian index had a strong run the last months of the year despite the declining oil price. According to Greater Europe, the oil price is falling for mainly 2 reasons: one is the mild winter which reduced the demand for heating oil and the second one is more technical. Increasingly

positive sentiment about global growth had led to a bubble in the oil price which now has come to an end. However, for the large oil companies the lifting cost for oil is around USD3 per barrel, so a price of USD50 per barrel is still very attractive. Beside that the valuation of the Russian market, about 8 times earnings, is in Greater Europe's view also very compelling. The Greater Europe Deep Value fund recently built positions in electricity distribution companies. The Russian electricity sector has been under restructuring for the last 5 years and it is still one of the most underinvested but most important parts of the electricity market. Greater Europe expects to more than double their money on these holdings.

The **Montpelier Fund** (Emerging Markets Equity) returned almost 19% since July 2006 and 11.7% in the fourth quarter. In January 2007 the fund had its 3rd capital call and the manager expects to be fully invested the coming months. Currently the fund has USD325 million under management. Egypt (about 25%) and China (40%) are the biggest exposures in the portfolio. The manager invests in China via Hong Kong listed shares, in the sectors agriculture, water, ports and batteries. Another 6% of the portfolio is invested in a company holding the non US assets of Enron. These assets, 17 operations in 14 different countries, were bought by a consortium of investment institutions in 2006 from the liquidators of Enron and this company is expected to go public during 2007, which should provide significant return potential.

Ecofin Special Situations Utilities Hedge Fund (Event-driven) returned almost 5% during the fourth quarter. The biggest part of the portfolio, about 63%, is invested in Europe. Most of the remainder is invested in the US. Last months there has been a positive momentum in the wind sector. Recently there have been a number of market transactions announced, the most notable of which is Goldman Sachs' intended sale of Horizon Energy. The valuation of the funds biggest holding Airtricity, continues to be well supported by market comparables.

The **CIM Special Situations Fund** (Event-driven), in which the Theta Deep value fund is invested as of October 2006, had a strong performance, up 14% in the last quarter. As mentioned earlier the portfolio has a bias towards technology (33%), natural resources (55%) and distressed (9%). Last months CIM realized a strong performance in resource stocks. Companies such as Cameco (uranium) and Omega corp. (metals) were beneficiaries of a rally in natural resources. Over the past couple of months, CIM has strengthened their investment team by adding 2 research analysts and has opened a new office in Jakarta in January 2007: 70% of the fund's assets are invested in Asia and the weighting is likely to exceed 50% in the foreseeable future.

Camulos Partners Offshore Fund (Distressed Debt) had a good quarter with a return above 6%, generated in leveraged loans and distressed securities. Among the distressed holdings, large gains came from investments in Eurotunnel, Adelphia as well as Mach Gen and Entegra, two U.S. based power producers. Eurotunnel's board approved a plan in December to refinance their debt which should make it possible to exit bankruptcy protection. For Q1 2007, a large volume of new issuances in both the loan and bond markets is expected in the first quarter which should provide many opportunities. However, given the current market conditions, Camulos remains in a somewhat defensive position, maintaining a large position in leveraged loans.

Eidesis Special Opportunities Fund (Structured Credit / Distressed Collateralised Debt Obligations). The Eidesis Special Opportunities fund had a strong return with 9% during the fourth quarter. We are especially gratified with these results as Eidesis has achieved them during a strong high yield rally, all the

while maintaining defensive positioning and exhibiting a negative correlation to the High Yield indexes. As importantly, performance was achieved via a relative value strategy with significant short positions in equity and mezzanine tranches which rallied throughout the quarter. So far in 2007, there is every indication that the debt issuance is set to continue. This week's pipeline update from just one of the investment banks lists 27 CDOs scheduled to hit the market by mid-March. We expect this trend to prevail until credit fundamentals begin to soften or until confidence erodes.

The **Zais Matrix V Fund** (Structured Credit / Distressed CDO's) has made its first investment, a synthetic leveraged loan deal, in November. It had its first distribution date in December and it is performing as expected. The area where they expect to first see buying opportunities is in the ABS market. This could be in former investment grade-rated tranches that are downgraded or in undervalued deals that are penalized due to overall market conditions. They expect that many of the investment opportunities will materialize towards the 2nd half of the year.

Paulson Credit Opportunities Fund (Credit), in which the Theta Deep Value fund is invested as of 1 October 2006, returned 8% in the 4th quarter. With the objective to benefit from weakness in the US housing market, the fund has a significant short position in US mortgage-backed securities backed by pools of subprime mortgage loans. October started strong for Paulson with falling prices across the board. However by mid-month the demand from the massive USD19 billion pipeline of synthetic structured CDOs simply overwhelmed the demand for short positions. During the second half of October, spreads tightened approximately 21 basis points, causing a market-to-market loss of 3.5% for the Paulson fund. In contrast, November and December were strong months with +3.6% and +8.0% respectively, driven by dramatic credit spread widening as worries about the US housing market reached newspaper headlines again. A key feature of the US subprime mortgage market is that serious delinquencies for loans originated in 2006 are almost double that for loans originated in 2004 and 2005. The recent demise of Ownit Mortgage Solutions, a medium-sized subprime mortgage originator, and reported efforts to sell Option One and Ameriquest, suggest that many subprime originators can no longer stay in business. These trends point to the likelihood of further spread widening over the next few months and a significant correction in the second half of 2007.

The **Jolly Rogers Activist Fund** (Activist Investing) had a strong 18% return during the fourth quarter, of which 13% was generated in October. Performance was driven by companies such as Angelica (+23%), PW Eagle (+18%), CKE restaurants (+17%) and Cutter & Buck (+17%). Currently, the Jolly Rogers Activist Fund has 29 positions and in most of the positions they have been active in the last quarter and they expect to become more active over the coming months. One of the larger holdings of the Jolly Rogers Activist Fund is Brinks. The Jolly Rogers portfolio manager is actively trying to get on the board of this company to serve the shareholders of this company and create additional value by helping them change their business strategy. Following a challenging period in the summer of 2006, the fund has posted a very strong recovery and, with the hiring of a new risk officer and two new analysts, is well on track to deliver strong returns going forward.

The **Absolute Activist Value Fund** (Activist Investing) had a solid return of almost 10% during the last quarter of 2006. Over the last months the fund has grown to EUR80 million and the manager has been active in several situations across Europe: M&A transactions, corporate restructuring and also taking some "structural short" positions. On average, 60% of the fund's capital was invested in about 10 positions in which they have been active recently or plan to become active in the short term. Beside that Absolute holds

10 positions in which they see potential activism in the medium term. Given the strong performance of the European market, the manager is hedging his long positions with index shorts, several single stock shorts and options. The managers also believe that they have some outstanding catalyst-driven positions which could materialize in the next couple of months and they have started to make preparations for activist cases in Switzerland and Austria.

CQS Directional Opportunies Fund (Convertibles) generated a strong return of more than 11% during the fourth quarter. We are very pleased with the fact that returns are generated with relatively low volatility. During the quarter the performance was generated in different strategies such as structured credit, CDO equity tranches and some long equity positions. In total the portfolio has about 46 positions. For 2007, the manager expects to find opportunities in the credit area as well as in the equity markets. In the credit market wider spreads and greater dispersion will create opportunities. While last year the equity returns were mainly generated from the longs, 2007 returns are likely to be found on both the long and the short side as the equity bull market matures and the credit cycle's inflation and rate hikes starts to bite.

New Allocations per 1 January 2007

Red Kite Metals Fund/Prospect Fund (Commodities) invests in 6 base metals and 4 precious metals. They have a very experienced team based in London and New York, of which most have worked together since 1990 at Metalgesellschaft as physical traders. A key part of their investment strategy is the information they gather from their physical trading activities in North West Europe, Eastern Seaboard America and China, which they feel are the three key regions for setting metal prices. Especially China is a key swing factor for setting prices within the commodity markets and trading the physical commodity (moving around the commodities from producer to warehouse to consumer) is the only real way to get reliable information from that country. According to Red Kite the outlook for commodities is positive: they expect inflows into the commodities markets in general and the market has been discounting a recession in the U.S. However, a soft landing seems more likely to them, which would lead to higher growth and a positive impact on commodity prices. The long term experience of the team and the information flow from the physical trading gives us confidence that Red Kite will be able to deliver strong, albeit volatile, future performance in the metals sector.

For more information, please contact us at:

Theta Capital Management B.V.

De Lairesestraat 180

1075 HM Amsterdam

The Netherlands

Telephone: +31 (0) 20 5722733

Fax: +31 (0) 20 5722744

E-mail: info@thetacapital.com

Website: www.thetacapital.com