Theta Deep Value Fund

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Quarterly Investor Letter – Q1 2008

Theta Capital Management
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Dear investor,

The Theta Deep Value Fund lost 2.4% in the first quarter of 2008. This brings the return to 41% since inception in July 2006. During the first quarter of 2008 we saw increased volatility in equity markets with MSCI World down over 12% over the first 3 months of the year. A lot of this volatility was caused by the uncertainty related to the credit crisis in the US, which reached its climax (so far) with the bailout of Bear Stearns in March.

Theta Deep Value Fund - Performance (Series July 2006)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2006
Net Performance							-1.68%	1.19%	-0.75%	3.17%	2.90%	3.83%	**8.83%**
Cumulative Performance							-1.68%	-0.51%	-1.26%	1.87%	4.82%	8.83%	
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**2007**
Net Performance	-0.08%	6.60%	1.12%	1.36%	0.99%	2.80%	6.47%	1.26%	2.52%	6.65%	-0.45%	0.28%	**33.38%**
Cumulative Performance	8.74%	15.91%	17.21%	18.81%	19.99%	23.34%	31.32%	32.97%	36.33%	45.39%	44.74%	45.14%	
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**2008**
Net Performance	0.17%	-0.45%	-2.39%										**-2.66%**
Cumulative Performance	45.39%	44.73%	41.28%										

Note: As the fund's independent administrator provides an official NAV on a quarterly basis, monthly numbers are estimates provided by the manager.

The lack of liquidity in global markets also impacted the Theta Deep Value portfolio. Focus Capital, one of the holdings of the portfolio, had to close its fund when margin calls of its prime brokers led to forced selling of the underlying assets. When other market participants found out, they started aggressively short selling the other stocks in Focus' portfolio resulting in significant losses in February. Focus, was down over 80%, a negative contribution of 5% on the portfolio level. However, our funds largely offset this loss, the fund was down only 0.5% in February.

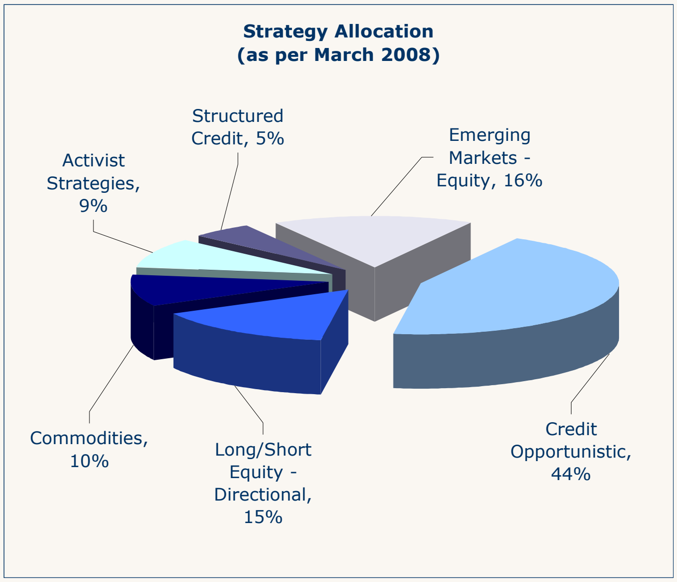
The main contributors during the first quarter were Red Kite and Paulson. Following a difficult 2007, Red Kite delivered strong returns in the first months of 2008, being up 45%. With a smaller asset base at the beginning of the year Red Kite managed to do very well during the volatile start of this year.

The Paulson Credit Opportunity funds benefited from a further deterioration of financials and subprime mortgages after an acceleration of US homeprice declines. The fund generated a handsome 10% for the first quarter. The fund manager remains bearish on the outlook for the US economy and the portfolio will stay on the short side in credit with positions in subprime and in debt of financial institutions via credit default swaps.

During the quarter we took a position in the **European Divergence Fund**. The fund is a combination of the trading skills of Corriente and the research of Gavekal and will focus on the divergence of risk premiums between European countries' sovereign debt. The fund manager believes that, after years of converging interest rates to German levels, markets will start to price government debt of a.o. Greece, Italy, Portugal, Hungary and Romania based on credit fundamentals. This has already caused yield spreads to widen. The fund will have short positions in government bonds from countries with deteriorating cash positions and less stringent fiscal policies. During the first quarter of 2008 the fund lost 5.7% especially on the short position in the Euro which strengthened during February and March roughly 6% from 1.48 to 1.58.

Portfolio Allocation

Strategy Allocation	Mar-08
Emerging Markets - Equity	**16%**
Montpelier Fund	
Greater Europe Deep Value Fund	
Credit Opportunistic	**44%**
Paulson Credit Opportunities Funds	
Camulos Special Situations Fund	
Autonomy Capital - C Class	
CQS Directional Opportunities Fund	
European Divergence fund	
Long/Short Equity - Directional	**15%**
Ecofin Special Situations Fund	
CIM Special Situations Fund	
Sector Speculare III	
Commodities	**10%**
Red Kite Metals Fund	
Red Kite Prospect Fund	
Activist Strategies	**9%**
Marwyn Neptune Fund	
Pershing Square	
Structured Credit	**5%**
Eidesis Special Opportunities Fund	
ZAIS Matrix V	
Total	**100%**



As can be seen from the pie chart, the portfolio remains well diversified. We do seek opportunities across a range of uncorrelated strategies as we believe this offers the best way to generate the 15%-20% average annual return over a three-to-five year period.

First Quarter 2008 Performance Review

Paulson Credit Opportunities Fund I & II (Credit Opportunistic) generated a 10% return during the first quarter of 2008. During the first quarter the US home price decline accelerated and the credit performance of subprime mortgages continued to deteriorate. On average the pricing of the “BBB” CDO’s fell from 21 cents on the dollar at the end of December to 12 cents on the dollar at the end of March. As prices fell the fund manager selectively covered the better performing positions in the portfolio. During the quarter the manager reduced 38% of the short positions in Paulson credit opportunities I and 16% in PCO II, resulting in a notional short position of 41% in PCO I and 59% in PCO II. The vast majority of the originally rated “BBB” bonds in the portfolio now have been downgraded to CCC. While loss realizations have been slow, Paulson believes the pace will quicken during the course of the year, increasing the probabilities of write-offs. Paulson’s outlook is that the US economy will weaken further and that the recession will be more severe than the past US recessions in 1990-1991 and 2001-2002.

The **Camulos Special Situations Offshore Fund** (Credit Opportunistic) generated 0.01% during the quarter. The fund continued to benefit from the fact that it is comprised of deals with little correlation to the overall markets. The investments in the fund typically have holding periods of 18 to 24 months and the fund investments are progressing within this time frame. Because of the continued rise in prices for crude oil and natural gas manager believes that some of their energy-related investments should provide them with exit opportunities within our desired time frame. There is a fair amount of merger and acquisition activity and other corporate transactions in the energy arena globally adding to their conviction.

The **CIM Special Situations Fund** (Long/Short Equity - Directional) had a difficult first quarter of 2008, loosing 14.5%. The year started with one of the worst months for global equity markets since 1930's. During such volatile periods the fund manager believes it is best to do as little as possible. During the quarter the manager conducted an in-depth review of the portfolio companies to see whether there are more suitable stocks to replace existing holdings. This review hasn't led to much turnover. According to the portfolio manager valuations are extremely compelling as small caps in natural resources and technology are simply not on the radar screen of many investors. Given how commodity prices have developed recently he expects this to change in the future. One of the top holdings is a company called River Diamonds which is currently ramping up production. By June the company management expects to run at an annualized rate of 100,000 ounces of gold, with a production cost of USD420 per ounce. With the current market price just under a USD1000 per ounce this should lead to significant profits in the near future. Around 65% of CIM Special Situations is in natural resources, 25% is in Technology and around 7% in Distressed.

CQS Directional Opportunities Fund (Convertibles) generated an 8.5% return for the quarter and was positive in all three months this year so far. CQS made money on their short equity strategies, most notably from short positions in US, the UK and European financials. These gains were partially offset by losses in corporate European long positions. Structured credit trading made losses as credit spreads widened and concerns over defaults undermined the value of the fund's bespoke equity tranche positions. CQS believes that these mark-to-market losses will be substantially reversed as these positions mature over the next 3 to 18 months.

Greater Europe Deep Value Fund (Emerging Markets Equity) lost 1.6% during the quarter. The funds biggest exposure is to the Russian utilities sector. The manager expects that the legislation presently pending in the Duma will give a boost to valuations during the summer. The regulator is likely to allow the eleven new regional companies to raise prices taking into account cost developments, capex spending and a reasonable profit margin. The manager has increased its exposure in the consumer goods sector and infrastructure companies because of strong domestic demand. One of the companies in the portfolio is the Russian domestic cosmetics producer Kalina, which sells products in Russia, Ukraine and Germany.

Economists from the IMF, World Bank, World Economic Forum and major investment banks now share the view that from an economic policy point of view Russia is one of the best prepared countries in the world for a possible global economic slowdown given its large reserves and its budget and current account surpluses. The manager believes that Russia is presently in an unusually sweet spot, considering the commodity boom, the strong rouble, ample liquidity and the large catch-up potential.

Ecofin Special Situations Utilities Hedge Fund (Long/Short Equities - Directional) lost 4.5%. After the exit of Airtricity at the end of 2007, Ecofin made a USD105 million investment in Solel Solar Systems based in Tel Aviv (Israel). This investment was done through a combination of a subscription for new equity and secondary share purchases. Solel raised EUR 55 million in February for project developments in Spain and the US and Ecofin holds a minority stake in this company. Solel specializes in the design, manufacture and installation of solar fields and critical solar field components for large scale power generation. Solel is the world's largest solar thermal company with over 20 years experience in the sector and is one of the two suppliers of the critical UVAC tube.

Autonomy Capital - C Class (Credit Opportunistic - Emerging Markets) was down -7.0% in this quarter. The main theme in the portfolio for the coming period is long unlevered assets and short levered assets. For the current portfolio this means that they have a high exposure to emerging markets real estate especially in Brazil and Turkey. Recently they also participated in a real estate platform in Mexico. During the second quarter the less liquid investments will be transferred to the D-class with the intention to realize those investments during the next three to four years. In the short term the C-class will invest in more liquid investment opportunities in emerging markets real estate. During the first quarter Autonomy added 2 senior staff, a CEO and a senior portfolio manager, which increased the organizational stability and gives us comfort that this manager is able to generate solid returns going forward.

The **Marwyn Neptune Fund** (Activist Strategies) lost 3.2%. In January of 2008 Entertainment One, a rights exploitation business, announced a EUR 40 million acquisition of RCV Entertainment. RCV is an independent film distribution business in Holland and Belgium and ownes a significant library of long term film rights and has studio relationships with reputable companies in the industry. February was a positive month for Marwyn with the sale of Inspicio PLC, a laboratory testing business. March was a difficult month when a stock overhang was sold down into the market. The fund was down 5% in March which resulted in the negative return for the first quarter.

Pershing Square (Activist Strategies) was up 2.3% with most of the return being generated by the short book. One of the main long holdings of the fund is Target. The stock was up 1%. The company has an aggressive USD10 billion share repurchase program underway which is now being executed well below initial expectations. If Target completes the buy back program at current stock prices, it will cancel 23% of the outstanding shares while remaining a modestly leveraged enterprise. Furthermore, the company's credit card receivables sale is, according to the company, close to completion with transaction closure anticipated by the end of the second quarter. These two initiatives are two of the three potential value drivers which Pershing Square had identified at the time of their purchase of Target shares mid 2007. The third potential value driver arises from the fact that Target owns substantially all of its underlying real estate, yet gets little if any credit from the market for these assets. A potential solution to this issue is expected shortly with the company having stated publicly that it is receptive to real estate value-maximizing transactions that allow the company to maintain control of its portfolio. Target is managing its businesses extremely well during this period of consumer weakness and Pershing Square believes that the company is well positioned as a high value / low cost retailer, benefiting from those customers who are trading down from higher priced department stores.

The **Montpelier Fund** (Emerging Markets Equity) lost 5.6%. Currently the portfolio is widely spread across 50 names and invested in different regions. About 25% of NAV is invested in the Middle East, 23% in China, 6% in Russia, 14% in other regions and 32% in cash. The higher cash level held during the quarter reflects the more cautious approach to the markets and the desire to have the ability to pick up assets at distressed prices during the current volatile environment. The cash level also includes a large receivable due from a significant investment in Orascom Construction Industries. This company sold its substantial cement business during the quarter. Investors are therefore receiving a large cash payment, while retaining their shares in the residual company focusing on Middle East construction and fertilizer production. The Middle East growth story remains very compelling, and the manager continues to pursue key infrastructure and domestic demand themes in the region, such as low cost housing and construction. The Middle East and China currently remain the main focus areas for the fund.

The **Montpelier China Fund** lost 17.3% during the quarter. Chinese markets continued to be hit hard by recent global events and increased risk aversion across equity markets, with a decline of 24.5% over the quarter for the Hang Seng China Enterprise index, while the Shanghai listed A shares declined by 31.3%. The fund finished the quarter with 16 investments in underlying businesses like aviation, mining, retail, machinery manufacturing, shipping services and logistics. As of March 31st the fund carried a substantial 49% cash balance and has recently selectively added to existing positions at lower prices. Attractively valued domestic demand stories in consumer products areas are being added to complement the investments in State Owned Enterprises subsidiaries, which comprise the core of the portfolio and tend to be focused on manufacturing and infrastructure areas. The fund recently added to its position in a small supplier of specialized equipment to the global oil and gas industry. This company is rapidly closing the quality gap on the large international players which dominate the industry, while enjoying a sustainable long term cost advantage.

Sector Speculare III (Long/Short Equity – Directional) returned -2.2% during the first quarter and 15.4% since its inception in March 2007. During this period the fund has made 15 investments and already made the first distribution to shareholders in January 2008. The sector exposure is 35% oil and gas producers and 48% oil services. A portfolio example is Revus Energy. This oil exploration company operates on the Norwegian continental shelf and its stock was, in line with the equity markets, down 16% in the first quarter. Sector Speculare views that these smaller firms offer much better risk-reward characteristics than their bigger peers like BP, Royal Dutch and Chevron and they expect some interesting upside over the next 12 months. The main theme for Sector Speculare in 2008 remains the high oil price volatility and the manager believes that in 2008 value stocks will finally outperform.

Eidesis Special Opportunities Fund (Structured Credit/Distressed CDO's) realized a 6.7% positive return. At this point Eidesis holds a net long relative value trade in high yield indices, which is supplemented by a short credit book to reflect the manager's bearish credit view. Whereas in January and February the short credit book effectively hedged the relative value trade, the latter outperformed in March contributing the bulk of the quarter's performance. The relative value trade did well as spreads rallied *and* as risk was allocated from the senior tranches to the junior tranches. The manager expects this move to continue going forward. Due to his negative outlook, the manager intends to maintain the short book for the time being. As opportunities arise, Eidesis will call the outstanding commitments and start investing in distressed CDOs and ABSs. However, the manager expects prices first to keep drifting lower with increasing distressed supply and continuing erosion of credit quality.

The **Zais Matrix V Fund** (Structured Credit / Distressed CDO's) suffered another 7.8% loss over called capital in the first quarter of 2008. Further pressure on mortgage related securities were behind the loss. Although there is a great future opportunity in distressed ABS investing, Zais has pulled the trigger too early. We are disappointed with this and have pressed the manager to be patient rather than greedy. Given the small allocation (<1%) to the fund its loss has had limited impact on the Theta Deep Value Fund performance as a whole.

Focus Capital (Activist Strategies) was the greatest disappointment during this quarter being down 84%. The fund had concentrated positions in the Swiss market in relatively small companies and employed a modest amount of leverage. After a 9% drawdown in January, the first half of February also proved to be difficult and in order to keep its leverage down the fund accepted a bid on one of its holdings. However, this transaction backfired as it created rumours that the fund was a forced seller which led to a drastic fall of the share prices of its core holdings. Margin calls of its prime brokers forced the liquidation of the underlying positions resulting in very significant losses for the fund.

Red Kite Metals Fund (Commodities) was up 58% this quarter and **Red Kite Prospect Fund** (Commodities) was up around 33%, bringing the blended return for our portfolio to around +45% for the quarter. As we stated in our previous Quarterly, we remained convinced of the quality of the managers of this fund despite a disappointing 2007 in which we saw a blended loss of around 12%. The fund became much smaller in 2007 due to the combination of redemptions and poor performance and management had become very well aware of the fact that they had grown too much; henceforth they will limit the size of the fund. This is a highly volatile strategy that should be viewed on a longer-term basis and as such we are pleased with the strong performance in the first quarter although we expect further volatility going forward. The fund generated especially strong returns in the month of February when commodity prices in general and base metal prices in particular saw an unprecedented surge. The Fund was well positioned for this run as it had a bullish view on most base metals given continued strong demand from China in particular whilst supply continued to either lag or come at a higher price. The jump in prices in February was so strong however that the managers decided to take risk off the table. As a result the drop in prices during the month of March had only a limited impact on their performance. We feel the ongoing high levels of volatility in the markets and the entrance of numerous participants with only limited experience in the field will suit the fund's aggressive and experienced trading team going forward.

For more information, please contact us at:

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