Theta Deep Value Fund

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Quarterly Investor Letter – Q2 2008

Theta Capital Management
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Dear investor,

The Theta Deep Value Fund made a modest gain of 0.75% in the second quarter of 2008. This brings the return to 42% since inception in July 2006. The second quarter of 2008 ended on a very negative note in worldwide equity markets with the MSCI World losing 8.3% in June alone, bringing its year-to-date losses to just over 12%. A combination of a clear slowdown in the world's economies with simultaneously inflation running at multi-year highs means investors are, understandably, worried about the near term outlook. Add to this continued uncertainty about the strength and stability of the world-wide banking system and it is clear why our managers are so cautious about the near term outlook.

heta 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%	-1.18%	0.25%	1.69%							**-1.94%**
Cumulative Performance	45.39%	44.73%	41.28%	39.61%	39.96%	42.32%							

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

The environment during the second quarter was clearly a difficult one to generate outsized returns. However, we are also pleased that, despite the difficult environment, our managers managed to keep losses at a manageable level. The only fund that suffered a significant drawdown was the GaveKal European Divergence Fund. Its fundamental negative view on the Euro given the backdrop of deteriorating financing conditions for the weakest members of the Eurozone, was badly timed as concerns about the US financial system meant the US$ continued to fall. The fund lost around 20% over the quarter but the impact on the Deep Value Fund was relatively limited as we had allocated only a fairly small portion to this highly volatile fund.

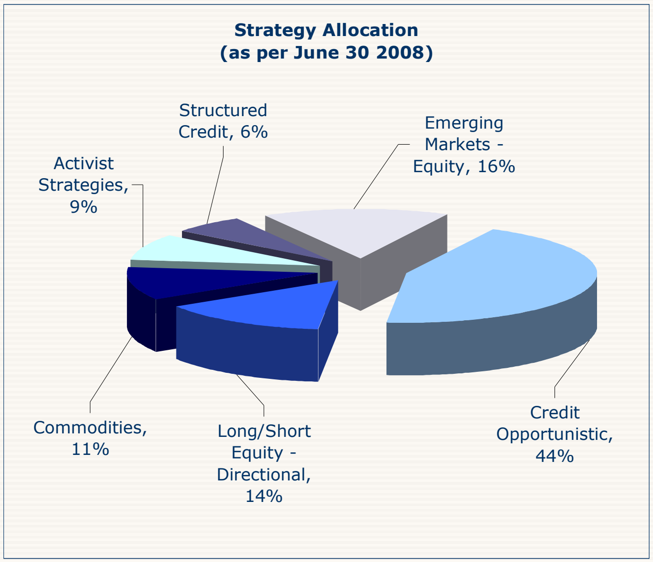
The main contributor during the second quarter was CQS Directional Opportunities which had a very good June as it benefited from solid returns across all its strategies. Short equity positions in European and US financial names, long-dated short credit positions as well as gains on the loan portfolio all added to a very strong month for the fund. Another sizeable contributor during the quarter was the Red Kite Prospect fund which benefited from the rise in longer-dated industrial metals during the quarter, especially Aluminum and Copper.

The contribution from the other funds was limited which is not surprising given the volatility during the second quarter. It was interesting to see for example how despite the very significant weakness in the share prices of financials during June in particular, credit spreads widened only modestly. This meant that the Paulson Credit Opportunity funds I and II, which have a significant short position on financials through CDS ended the quarter modestly up and flat respectively.

We aim to generate double-digit annual returns through the cycle, which will most likely not be achieved this year. However, if the downside remains limited to a virtually flat performance, our portfolio is performing satisfactory. The fund was reopened for a limited amount of capital for July 1 which takes the total AuM of the fund up to around Euro 160m, an amount which allows us to maintain both flexibility as well as access to the right managers. One change was made to the Deep Value portfolio during the second quarter, which was the redemption of CIM.

Portfolio Allocation

Strategy Allocation		Jul-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		**14%**
	Ecofin Special Situations Fund	
	CIM Special Situations Fund	
	Sector Speculare III	
Commodities		**11%**
	Red Kite Metals Fund	
	Red Kite Prospect Fund	
Activist Strategies		**9%**
	Marwyn Neptune Fund	
	Pershing Square	
Structured Credit		**6%**
	Eidesis Special Opportunities Fund	
	ZAIS Matrix V	
Total		**100%**



The portfolio remains well diversified as we continue to 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.

Second Quarter 2008 Performance Review

Paulson Credit Opportunities Fund I & II (Credit Opportunistic) generated a 1.4% return during the second quarter of 2008 bringing the year-to-date return to around 11%. The situation in the US housing market continued to deteriorate significantly over the second quarter with house prices declining and the credit picture for mortgage-related financial structures deteriorating further. The stress is not a purely subprime-related issue but also for example the Alt-A market has been impacted significantly (Alt-A is the mortgage segment one level up from subprime). For the 2006 vintage, 60+ day delinquencies are reaching 13% whilst the mortgages with resettable interest rates are even hitting 60+ day delinquency rates of 16%. The sharp decline in home prices means that loan-to-value ratios have gone up significantly and has made it more attractive for people to default on their payments and hand over the keys of their house to the bank.

We had two meetings with John Paulson in June in which his bearish view on the world's markets was once again confirmed. Apart from the distress in asset backed paper, he feels there will be significant further distress, particularly in the world's financial sector given its exposure to the mortgage market. A theme he has been repeating over the last 12 months and which clearly has also proved right over last months as banks recapitalized again and again in order to shore up their battered balance sheets. John Paulson has indicated that the fund will take start investing in distressed asset backed paper as well as distressed financials once he thinks the time is right and the full effect of the real estate hit has been recognized by the banks and priced in. Thus far, he thinks it is still too early and the funds have run with a net short exposure to take advantage of the turmoil.

The **Camulos Special Situations Offshore Fund** (Credit Opportunistic) gained 0.5% for the quarter, bringing the year-to-date return to around 0%. There is little to add to what we said in our last quarterly as the managers continue to work on exits. The investments in the fund typically have holding periods of 18 to 24 months. A good example is their investment in a power plant in New Hampshire where they hope to make a return of approximately 100% over a 24month period. We visited the manager at their offices in Connecticut in June to go through the investments and potential catalysts in the near term.

The **CIM Special Situations Fund** (Long/Short Equity - Directional) had a volatile second quarter but managed to make a small profit of around 0.25% for the quarter which still leaves the fund down 13.9% for the year. The fund continue to suffer from the fact that, despite extremely strong fundamentals for the the energy and mining sector in particular, small cap stocks are out of favour and this weighs heavily on his portfolio. In particular, June was a difficult month for the fund when it gave back the gains from April and May and especially in the last week of that month there was indiscriminate selling within his sector. Despite the difficult macro environment, the fund saw one take-over (at a 100% premium) and one successful IPO (at a very significant premium to cost) during the month of June. However, companies with no or slightly negative newsflow were punished and prices declined across the board. The disconnect between the value of the underlying commodities and the shares is considerable. However, we are not fully comfortable as to how long this disconnect might last and whether there might even be further downside if commodity prices were to correct. For that reason, and after lengthy conversations with the manager, we have decided to redeem our investment in the fund.

CQS Directional Opportunities Fund (Convertibles) had another very strong quarter, generating a 12.4% return for the quarter and 21.9% for the year. Like in the first quarter of the year, CQS made money on their short equity strategies, most notably from short positions in US and European financials. Especially June was a good month for the fund, returning close to 11% in the month alone. Apart from short equity exposure to financials, the fund also made solid returns in long-dated short positions in single name credits and from its positions in both short-term structured credit as well as from its loan portfolio. During May we visited the manager and were once again impressed by both the quality of the set-up as well as the originality of the trades the managers continues to find.

Greater Europe Deep Value Fund (Emerging Markets Equity) gained around 2.7% during the quarter bringing the year-to-date return to around 1.8%. The funds did not yet benefit from the expected rerating of the Russian utility sector which had a sizeable impact on the fund's performance as the utility sector was the largest exposure in both funds. We visited the manager during the month of May at its offices in Moscow to go through the fund's current portfolio as well as opportunities the manager see going forward. Clearly, there is a considerable amount of unease in the West about how Western investors are treated (the latest example being the spat between BP and its Russian partners in the TNK-BP) and Jochen Wermuth and his team are clearly aware of this. However, activism to unlock value for (minority) shareholders has been a core part of their strategy and considerable value continues to be unlocked by the team. The manager also visited our offices in May and presented at our Theta Deep Value Investor Conference.

Ecofin Special Situations Utilities Hedge Fund (Long/Short Equities - Directional) gained 4.1% for the quarter bringing the year-to-date performance to -0.5%. The fund has around 50% of its investments in Europe, around 33% in North America with the remainder in Emerging Markets and the rest of the developed market. The market for utilities in the second quarter was somewhat mixed. The IPO of the renewables unit of Portuguese EDP, EDP Renovaveis, was the second biggest renewable energy public offering ever (and the biggest IPO of the year in Europe, raising US$2.4bn). However, the shares performed poorly after the listing and have since declined by around 8%. Overall, utility indices could not escape the onslaught in the equity markets in June although the indices certainly outperformed other sectors given its defensive qualities. Over the first six months, the Philadelphia Utility Index was down 1.2% which is the worst first half of a year since 2002.

Autonomy Capital - C Class (Credit Opportunistic - Emerging Markets) gained 3.3% in the second quarter, bringing the year-to-date return to 4.9%. During the first quarter Autonomy added a CEO and a senior portfolio manager for special situations to the team, which increased the organizational stability and gives us comfort that this manager is able to generate solid returns going forward. Both visited our offices during June and we went through the opportunity set as well as the organizational structure of the firm. We feel that broadening the employee base and giving Robert Gibbins more room to focus on the investment side, provides an attractive investment proposition. They will be opportunistically looking for opportunities in Latin America where they have significant exposure already but also in Turkey and other countries of the FSU. All geographies/areas with strong fundamental growth as well as very little overall leverage.

The **Marwyn Neptune Fund** (Activist Strategies) lost 10.1%, bringing the year-to-date loss to 13.5%. In particular June was a difficult month for the fund, losing more than 9% in the month. There was no negative fundamental news on the company's core portfolio but shares drifted lower in low volume with no buyers. During the month, most portfolio companies reported they were on track to meet their targets, whether operationally or financially, but in this environment that is not sufficient to warrant a rerating by the market. The managers visited our offices in May and we went through their current portfolio to see how they plan to unlock value from their investments over the coming period. It has become clear to us that considerable progress continues to be made.

Pershing Square (Activist Strategies) was down slightly for the quarter, bringing the year-to-date return to just under 2%. The gains on the fund's short positions in MBIA, Ambac and FSA (mainly expressed through credit default swaps) compensated for the losses on the long book. The long book of Pershing Square has a high weighting towards the US consumer (Target, Sears, Borders Group) which clearly has been impacted recently. However, in sharp contrast to many other activist investors, Bill Ackman and his team have been able to generate considerable returns on the short side, first of all by his well documented work on the financial reinsurers Ambac and MBIA and recently he has come out with a plan for the Government Sponsored Entitities (GSEs) Fannie Mae and Freddie Mac. Pershing Square is short the equity and junior debt of these companies as it thinks the levels of gearing (total leverage to common equity of around 130X) is unsustainable and the government would be better off restructuring the balance sheet rather than use government funds to prop up the equity.

The **Montpelier Fund** (Emerging Markets Equity) lost 1.1% for the quarter, bringing the year-to-date return to 6.7%. The fund currently has around 19% of it's portfolio in the Middle East, 20% in China, 9% in Russia, 15% in other regions and a 37% cash position. The fund reduced its exposure to the Russian electricity sector given the unclarity as to how providers of capital to the creaking infrastructure in Russia will be rewarded. However, on balance the fund did increase its exposure in Russia, mainly in the oil & gas sector. The Middle Eastern exposure was reduced somewhat as a result of profit taking and a large cash payment received from one of the holdings and the manager is actively looking around for new investment opportunities. The Chinese market remains volatile but the manager pursues the same strategy of investing in small and medium sized State Owned Enterprises that benefit from asset injections.

The **Montpelier China Fund** lost 8.4% during the quarter, bringing the year-to-date loss to 24.8%. The Chinese markets remained very volatile during the quarter. After the March lows, the markets showed a strong recovery at first before correcting sharply again alongside global markets in June. High oil prices and inflations are key concerns but the manager feels the Chinese economy is strong enough to prevent these translating into a serious economic crisis.

Sector Speculare III (Long/Short Equity – Directional) returned 1.4% during the second, bringing the year-to-date return to -1.0%. Although there were no significant transactions during the first half, we expect considerable newsflow from this fund over the coming months. Given the record oil prices, the Sector team is uniquely positioned to benefit from the increase in spend on Oil Exploration, Development and Production for which it has hired highly experienced teams to manage their projects. The managers visited our offices during May and we are excited by the prospects for this fund in the near term.

Eidesis Special Opportunities Fund (Structured Credit/Distressed CDO's) realized a return of 2.1% for the quarter, bringing the year-to-date return to 8.9%. The manager remains bearish on the outlook for the structured credit market as credit is still in an early stage of significant contraction which will create distressed opportunities going forward. Defaults within the CDO universe have been well publicized. However, considering the overall size of the CDO universe of around US$600bn, less than 10% of the total likely liquidations have been completed and prices are likely to move lower still as the other pools are liquidated.

The **Zais Matrix V Fund** (Structured Credit / Distressed CDO's) gained 10 % over the quarter, bringing its year-to-date loss to-2.8%. The structured credit market remained very volatile during the quarter but on balance some of the earlier losses the fund incurred reversed. This is a long-term strategy with a very experienced team which sees very good opportunities and has made another capital call during the quarter to invest in some of the opportunities it sees.

Red Kite Metals Fund (Commodities) was up 2.6% this quarter and **Red Kite Prospect Fund** (Commodities) was up around 8.2%, bringing the blended year to-date return for our portfolio to around +50%. After a very strong first quarter, the Red Kite team became considerably more cautious as it thought prices for certain base metals seemed to have caught up with fundamentals. The managers have been actively shorting some base metals. On others, the managers have taken a more cautious view because although the macro economic picture has deteriorated and this clearly has had its impact on demand, supply remains extremely tight and small supply disruptions could easily lead to further price shocks.

The **GaveKal/Corriente European Divergence** Fund had a very disappointing quarter, losing close to 20% and bringing the year-to-date loss to -9.9%. The fund's primary investment theme is that tensions within the Euro zone will lead to a divergence of sovereign debt spreads. However, post the Bear Stearns rescue and the consequent tightening of spreads world wide the fund was posted a significant loss in April. However, part of this was recaptured in May and going forward we have considerable faith in the team they will deliver outsized returns in a scenario of stress in world wide financial markets. We caution that this is a very volatile fund, whose investment succes should be evaluated over a longer horizon.

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