Quarterly Fund Letter

THETA
CAPITAL MANAGEMENT B.V.

Q4 2009

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Table 1 Performance Theta Funds

	Q4 2009	2009
Theta Medium Volatility	0.5%	5.1%
Theta Deep Value	5.4%	16.1%
Theta Low Volatility (Class A+B)	-1.0%	-3.5%
HFR Fund of Funds Index	1.7%	12.1%

Theta Multistar Medium Volatility

Theta Multistar Medium Volatility had a quiet end to the year, gaining 0.5% for the fourth quarter and bringing 2009 performance to +5.1%. Although we ended close to our formal target of Euribor +5%, we would typically expect to do better in a year with a tailwind in risky assets. In short, as we have discussed several times before, our conservative stance which worked well in the first two months of the year, cost us from March to June. Making up the lost ground in the second half of 2009 proved very hard without moving out of our pre-described risk parameters. In addition, we have maintained a very liquid portfolio with limited exposure to the low-quality (and low-liquidity) assets that led the rally in 2009.

The net exposure (longs-/-shorts) of Theta Medium Volatility ended the quarter at around 41%, which was made up mainly by equity- and credit-exposure, and to a lesser extent by commodities. Gross exposure (longs + shorts; a proxy for leverage) increased slightly beyond 150% in recent months[1]. Our gross exposure is lower than most of our peers, a result of our underweighting in relative value strategies that typically employ a high degree of leverage. As reported by Credit Suisse in their latest Monthly Hedge Fund Industry Update (available upon request), gross leverage across the hedge fund universe has increased from 190% at the end of 2008 to 252% in December 2009.

We have seen considerable turnover in the portfolio in 2009, something we expect to slow down going forward. The aftermath of 2008 actually allowed us to get access to some high quality managers that had been closed before. We have used this period to upgrade the overall quality of our portfolio and believe this lays the solid groundwork for strong risk-adjusted performance in the future.

Notable additions during the fourth quarter were two global macro funds, both with some emphasis on emerging markets. The first one is **Woodbine Capital**, lead by Soros and SAC alumnus Joshua Berkowitz, who successfully launched his fund at the beginning of 2009 and has already closed to new investors. The second one is the **Brevan Howard Emerging Markets Fund**, managed by Geraldine Sundstrom who previously ran a similar portfolio at Moore Capital. We have closely been following the fund for some time and made use of the opportunity to invest when the fund opened briefly to raise additional money in October of 2009.

[1] These numbers are on a look-through basis. That is, we aggregate our asset class exposures on the portfolio level, based on the data provided by the underlying hedge funds.

There were also a number of funds that we redeemed in the fourth quarter. John Horseman, whose **Horseman Global Fund** had been a cornerstone of our portfolio for many years, decided to step back as the portfolio manager of the fund. We therefore redeemed and received our cash promptly. Since launching the Global Fund in 2001, John has compounded 16.1% per annum, compared to an overall decline in world equity markets of around 8% over the same period, although his continuing net short position in 2009 went against him. John will remain active as an advisor to the fund and his new role gives him the time and distance to comment on certain market events in his periodic "John Horseman's Market Comments". These have already made for interesting reading.

The capital freed up through these redemptions was invested in two new event driven funds, of which more in our Q1 letter.

The fourth quarter produced only a few outliers which moved the needle for the Medium Volatility Fund. The biggest contributor was the **Pia Macro Fund** in which we started building a position half way 2009. The manager of the fund, Chris Pia, has had a 20 year career at Moore Capital where he both ran a global macro portfolio and served as risk manager. Moore is renowned for its strong risk management culture, and Chris Pia has been a significant factor in this. Not surprisingly Mr. Pia has incorporated this risk management culture into his own fund. In his case that means cutting losses whenever a position costs him more than 0.25% at the fund level. The fund returned 13% in the fourth quarter, contributing 27 basis points to the portfolio.

The second biggest contributor was **Autonomy Capital**. This fund runs a global macro strategy with a focus on emerging markets. Robert Gibbins, the main principal, has a proven ability of detecting big macro themes early on and translating those into strong returns for his investors. Autonomy has had a rough patch in 2008 when liquidity disappeared in their sovereign debt and other credit positions causing them to take substantial write-offs, and leading to Robert's first loosing year in his 16 year trading history. As a result of the subsequent redemption requests the fund needed to restructure. Autonomy resurfaced from this restructuring in 2009 with a substantially smaller investor base, and, more important to us, with a much more liquid portfolio. The pressing imbalances in the global trade and payment system, provides an interesting backdrop for Autonomy's strategy. The fund returned 10% in the fourth quarter, contributing 27 basis points to the portfolio.

The last fund we want to mention is the **CQS Directional Opportunity Fund**. This is an opportunistic credit fund, managed by CQS' founder Michael Hintze. We have been investors with CQS for many years and believe that they are a very robust organization with excellent expertise in European and US credit markets. The Directional Opportunity Fund invests both long and short in structured and corporate credit, equities, convertibles and mortgage backed securities. Mr. Hintze earned 9% in Q4, bringing his 2009 performance to 56%. The attribution to the 4th quarter performance was 26 basis points.

The biggest negative contribution in Q4 came from the **Roy G. Niederhoffer Diversified Fund** which cost the portfolio 53 basis points. The fund follows a short term trading strategy and serves as an effective diversifier in our portfolio. In its history of over 17 years the fund has experienced a number of significant drawdowns, which were all followed by steep gains. The fund typically does well when markets are being dominated by emotions and this is most pronounced in times of crisis. A recent example was 2008, in which the fund made 51% with the bulk of the returns being produced in September and October. Therefore, poor patches of performance for this fund can be interpreted as a warning signal that complacency has taken hold in the markets, more often than not the prelude to a sudden reversal towards risk aversion. We have seen some of this happen already in the second half of January and remain cognizant of the fact that there might be more volatility to come. We remain comfortable with this fund as it has behaved in line with our expectations.

We thank our investors that have stayed the course during the bumpy ride in 2008 and following the disappointing performance in the ensuing recovery of (financial) asset prices in 2009. We do believe the environment will increasingly reward the truly long short type of investment managers that our Medium Volatility Portfolio is comprised of. The high correlation among assets witnessed both in 2008 and 2009 – i.e. a beta driven environment – was a difficult setting for such strategies. With idiosyncratic risks and returns taking over -and we see growing evidence pointing in that direction- we believe our alpha driven investment approach will yet again result in attractive risk-adjusted performance, difficult to achieve through more traditional investment strategies. By providing more detail about individual investments in this new reporting format, we aim to get this message across effectively. Beyond that, we invite our investors to visit our offices for a more in-depth discussion on our outlook and the portfolio.

Theta Deep Value

The Theta Deep Value fund gained +5.4% during the fourth quarter of 2009, bringing the full-year return to +16.1%. The main return drivers during the quarter were The European Divergence Fund (EDF, up 27%), Pershing Square (up 13%) and the Paulson Credit Opportunity Fund (up 9%). It is interesting to see that the portfolio made money on the short side (EDF) as well as in long biased funds (Pershing Square, Paulson, CQS). This pattern is a continuation of 2007, when the fund made strong returns in both short US subprime mortgages and long emerging markets funds. Sector Speculare was the only negative contributor during the fourth quarter.

The European Divergence Fund benefitted from the widening in sovereign credit spreads for Southern European countries like Greece, Spain and Portugal. Credit spreads widened considerably due to growing concerns about the fiscal situation in Greece and the potential impact on other European countries and the euro currency. During December the fund reduced its exposure actively and took profits during the widening. The cash will be distributed to the shareholders during 2010. For the whole of 2009 the EDF fund lost about 20% (after having gained 92% in 2008), which had a negative impact of about 2% on the Deep Value Fund.

Pershing Square International gained 13% during the fourth quarter, adding almost 1% to the overall portfolio. One of the biggest contributors for Pershing Square during the quarter was a long position in General Growth Properties (GGP), combined with a short position in Simon Properties. According to Pershing Square the stock is highly undervalued and offers tremendous upside as, in their view, the US economy is improving as is the outlook for high quality US shopping malls. During the fourth quarter, Simon Properties announced that they are studying on a bid for GGP and subsequently the stock tripled in value from $4 to $12. Since initiating the GGP position, the stock has risen 800% in value. This development has confirmed our view on Bill Ackman as a high-quality activist hedge fund manager.

We have been invested in the **Sector Speculare III** fund since April 2007. The fund invests in companies in the oil exploration & production (E&P) and oil services sector. The portfolio is a combination of listed equities and pre-IPO (private) investments. We are approaching the end date of the fund and the team is actively looking for exits for the investments. With the oil price between $70-$80 and now that financing has become more easily available for their projects, the outlook looks promising again. The main risk for the fund is a double dip scenario, in which the oil price would decline and financing options would disappear.

During the fourth quarter Sector Speculare III lost money mainly in the listed portfolio. Sector bought 33% of the Global Tender Barges (GTB) shares from 2 strategic investors. The team made this investment with the intention to merge GTB with BOS, a company which they already own for 78%. Following the acquisition the GTB board didn't agree with the proposals made by Sector and the stock declined in value. This resulted in a portfolio loss of about 4.5% during the 4th quarter. Sector was able to sell the GTB stake to Chinese investors in February 2010 recouping the original investment.

There has been little turnover in the Theta Deep Value Fund during Q4 2009 as well as during 2009 as a whole. This is in line with the fund's longer term character. Some rebalancing took place per the end of the quarter as individual performances had caused certain positions to grow towards our maximum position limits.

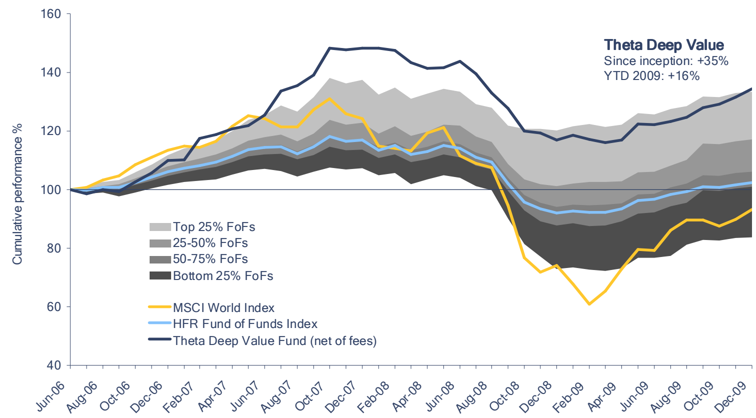
Business Update

New share class Theta Deep Value Fund

Theta Deep Value now has a track record of more than three years in which it has significantly outperformed not only other asset classes but also the majority of its peers (see Chart 1 below).

Given the interesting investment opportunities we are seeing for deep value strategies with a medium-term investment horizon, we have decided to re-open Theta Deep Value Fund to new investors and introduce more liquid share classes per 1 January 2010.

Chart 1 Performance Theta Deep Value Fund to December 2009



Source: Bloomberg, Theta Capital Management, HFR FoF database. FoF peer group comprises all FoFs from HFR Hedge Fund Database, adjusted for duplicate share classes (704 FoFs in total). **Outliers of top 5% and bottom 5% FoFs are omitted for illustration purposes.**

In addition, Theta Deep Value Fund has become fully regulated under the Dutch Financial Supervision Act (Wft) and the valuation frequency has increased to monthly from quarterly, both per 1 January 2010. If you wish to receive more information about the re-opening of Theta Deep Value Fund, please do not hesitate to contact us.

Launch of Theta Legends Fund

On 1 February, we launched the Theta Legends Fund with approximately EUR 60 million in capital from a limited group of seed investors. The idea and structure of the fund are the result of investor feedback we have received in the past year. Investors seem to have increased their focus on access to top-quality investment managers with a proven track record, transparency, and liquidity. Theta Legends Fund is designed to meet these requirements, as it provides:

- Access to a portfolio of investment legends with a high investment minimum and track record of more than 15 years
- Full transparency on the portfolio of maximum 10 investment funds
- Access to Theta's industry network, research & monitoring
- Monthly subscriptions and redemptions at NAV with a 90 days notice period; daily trading through Euronext Stock Exchange is anticipated in the coming months

If you would like to receive more information about Theta Legends Fund, please let us know.

Merger of Theta Multistar Low and Medium Volatility

Per January 1st we have merged the Low Volatility Fund Class A into the Medium Volatility Fund. We see better investment opportunities within a mandate that allows for some higher volatility and had been managing the Low Volatility Fund accordingly for the last year. As there was virtually no difference between the funds, aside from the higher level of cash in Low Volatility, we were able to collapse the two funds per January 1st. The Low Volatility Class-B shares remain outstanding and investors will receive separate communications in relation to these shares.

Performance Summary

The following table shows the net returns of the Theta funds for the period ending 31 January 2010.

	Theta Multistar Medium Volatility Fund	Theta Deep Value Fund (series July 2006)	Theta Legends Fund	HFR Fund of Funds Index	MSCI World Index
January 2010	-0.25%	0.80%	-	-0.69%	-3.77%
Year-to-date 2010	-0.25%	0.80%	-	-0.69%	-3.77%
Annual return					
2009	5.09%	16.06%	-	12.00%	22.07%
2008	-24.71%	-19.56%	-	-20.01%	-40.73%
2007	8.93%	33.37%	-	9.06%	2.32%
2006	9.58%	8.83%*	-	8.08%	12.22%
2005	11.76%	-	-	6.10%	12.89%
2004	6.80%	-	-	7.43%	9.62%
2003	12.77%	-	-	12.85%	23.46%
2002	7.71%	-	-	2.59%	-23.89%
Annualized statistics *					
Return	3.93%	9.09%	-	4.10%	-0.90%
Standard deviation	6.85%	9.30%	-	5.82%	15.47%
Sharpe ratio	0.47	0.90	-	0.58	-0.10
Correlation to MSCI World	0.48	0.37	-	0.68	1.00
Beta to MSCI World	0.52	0.51	-	0.53	1.00

* Since inception date of the respective funds: January 2002 for Theta Medium Volatility, July 2006 for Theta Deep Value, February 2010 for Theta Legends, January 2002 for HFR Fund of Funds Index and MSCI World Index. All indices hedged into Euro. Before January 2004, performance of Theta Medium Volatility client portfolios.

Risk Reports

Theta Multistar Medium Volatility

Strategy allocation and performance attribution

Strategy		# of Funds	Allocation (% NAV)	Return contribution (bps) Q4 2009	Return contribution (bps) YTD 2009
Equity Hedge		**11**	**29%**	**8.5**	**147**
	Equity Market Neutral	1	1.2%	-1.7	15
	Fundamental Growth	2	8.7%	8.3	97
	Fundamental Value	6	14.6%	-2.9	-12
	Technology/Healthcare	2	4.3%	4.7	46
Event-Driven		**5**	**17%**	**24.3**	**113**
	Activist	1	3.2%	11.2	10
	Distressed/Restructuring	3	9.2%	11.1	8
	Special Situations	1	4.7%	2.0	96
Macro		**13**	**36%**	**0.4**	**143**
	Commodity - Discretionary	2	5.2%	0.5	84
	Discretionary Thematic	10	26.9%	14.1	102
	Systematic Diversified	1	4.1%	-18.8	-42
Relative Value		**5**	**16%**	**16.8**	**107**
	Fixed Income - Asset Backed	2	7.8%	5.4	47
	Convertible Arbitrage	1	2.0%	1.3	7
	Fixed Income - Corporate	1	3.0%	7.0	32
	Multi-Strategy	1	3.0%	3.1	21
Total		**34**	**98%**	**50**	**509**

Theta Deep Value

Strategy allocation and performance attribution

Strategy		# of Funds	Allocation (% NAV)	Return contribution (bps) Q4 2009	Return contribution (bps) YTD 2009
Equity Hedge		**3**	**19%**	**4.8**	**88**
	Fundamental Growth	2	10.4%	23.6	179
	Energy/ Basic Materials	1	9.0%	-18.8	-91
Event-Driven		**5**	**43%**	**268.1**	**731**
	Activist	1	7.1%	77.3	140
	Distressed/Restructuring	3	21.6%	125.3	255
	Special Situations	1	14.0%	65.5	336
Macro		**5**	**24%**	**190.3**	**244**
	Commodity - Discretionary	2	10.5%	58.4	261
	Discretionary Thematic	3	13.5%	131.9	-17
Relative Value		**3**	**17%**	**85.8**	**549**
	Fixed Income - Asset Backed	1	5.5%	22.6	166
	Fixed Income - Corporate	1	7.0%	54.7	333
	Multi-Strategy	1	4.1%	8.5	50
Total		**16**	**103%**	**549**	**1612**