



# Theta Capital Management

Distressed Investing -  
Deep value opportunities through the cycle

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# Theta Capital Management

## Products

| Product                                | Investment style  | Target return | Target volatility | Liquidity               | Management fee | Performance fee              |
|--|---|---------------|-------------------|-------------------------|----------------|------------------------------|
| Theta Multistar Medium Volatility Fund | Diversified portfolio of single-strategy funds (25+ funds)  | Euribor+5%    | 5-7%              | Monthly                 | 1.25%          | 10% (Hurdle rate Euribor+2%) |
| Theta Deep Value Fund                  | Concentrated portfolio of single-strategy funds (< 15 funds)  | 15-20%        | None              | Quarterly               | 0.50%          | 15% (Hurdle rate 8%)         |
| Theta Legends Fund                     | Concentrated portfolio of multi-strategy funds (5-10 funds)   | 10%           | None              | Monthly (Daily trading) | 0.50%          | 5% (Hurdle rate Euribor+2%)  |
| Theta Select - Hedge Fund Platform     | Customized by strategy, number of managers, risk profile and liquidity terms<br>Minimum investment amount: EUR 10 million |               |                   |                         |                |                              |



# Theta Capital Management Performance

| Product                                | March | April* | 2010 YTD* |
|--|-------|--------|-----------|
| Theta Multistar Medium Volatility Fund | +2.4% | +1.1%  | +2.7%     |
| Theta Deep Value Fund                  | +3.8% | +2.1%  | +7.5%     |
| Theta Legends Fund                     | +3.1% | +1.6%  | +4.7%     |
| HFRX Global Hedge Fund Index           | +1.3% | +0.7%  | +2.3%     |

\* Manager estimates. Source: Bloomberg, Theta Capital Management

| Top 10 funds by strategy over the last 3 months  |                   |            |                   |                    |         |                         | InvestHedge    |
|--|-------------------|------------|-------------------|--------------------|---------|-------------------------|----------------|
| Fund name  | Last 3 months (%) | Feb-10 (%) | Last 6 months (%) | Last 12 months (%) | YTD (%) | Annualised compound (%) | Inception date |
| Global Multi Strategy EUR                        |                   |            |                   |                    |         |                         |                |
| Theta Deep Value Fund*                           | 3.96%             | 0.80%      | 0.88%             | 1734%              | 1.61%   | 8.91%                   | Jul-06         |
| Reyl Resurgence Fund EUR                         | 3.79%             | 0.32%      | 8.44%             | n/a                | 1.87%   | 18.09%                  | Apr-09         |
| Trocadero Capital Holdings - EUR                 | 3.57%             | 1.59%      | 6.90%             | 16.25%             | 1.34%   | 4.21%                   | Oct-03         |
| Montier Multi-Strategy Fund of Funds - EUR       | 2.89%             | 0.41%      | 6.52%             | 12.36%             | 0.27%   | 3.64%                   | Jun-00         |
| Ashton Select Fund - EUR                         | 2.88%             | -0.14%     | 5.08%             | 7.20%              | 0.94%   | 1.48%                   | Nov-05         |
| Multi Alternatif Equilibre Euro                  | 2.73%             | 0.70%      | 6.32%             | 13.49%             | 0.57%   | 2.67%                   | Nov-01         |
| Culross H Fund - EUR                             | 2.57%             | -0.39%     | 6.02%             | 16.44%             | 0.66%   | 5.36%                   | Sep-07         |
| Mosaic - EUR                                     | 2.41%             | 0.03%      | 5.14%             | 9.56%              | 0.32%   | 6.17%                   | Nov-03         |
| Alpine Select                                    | 2.41%             | 1.20%      | 3.01%             | 20.85%             | 2.62%   | 3.43%                   | Apr-98         |
| SAIL Multi-Strategies Fund - Topaz Class E - EUR | 2.39%             | 0.51%      | 5.78%             | 17.58%             | 1.30%   | 2.66%                   | Mar-07         |





## Theta Deep Value Fund

### The proposition

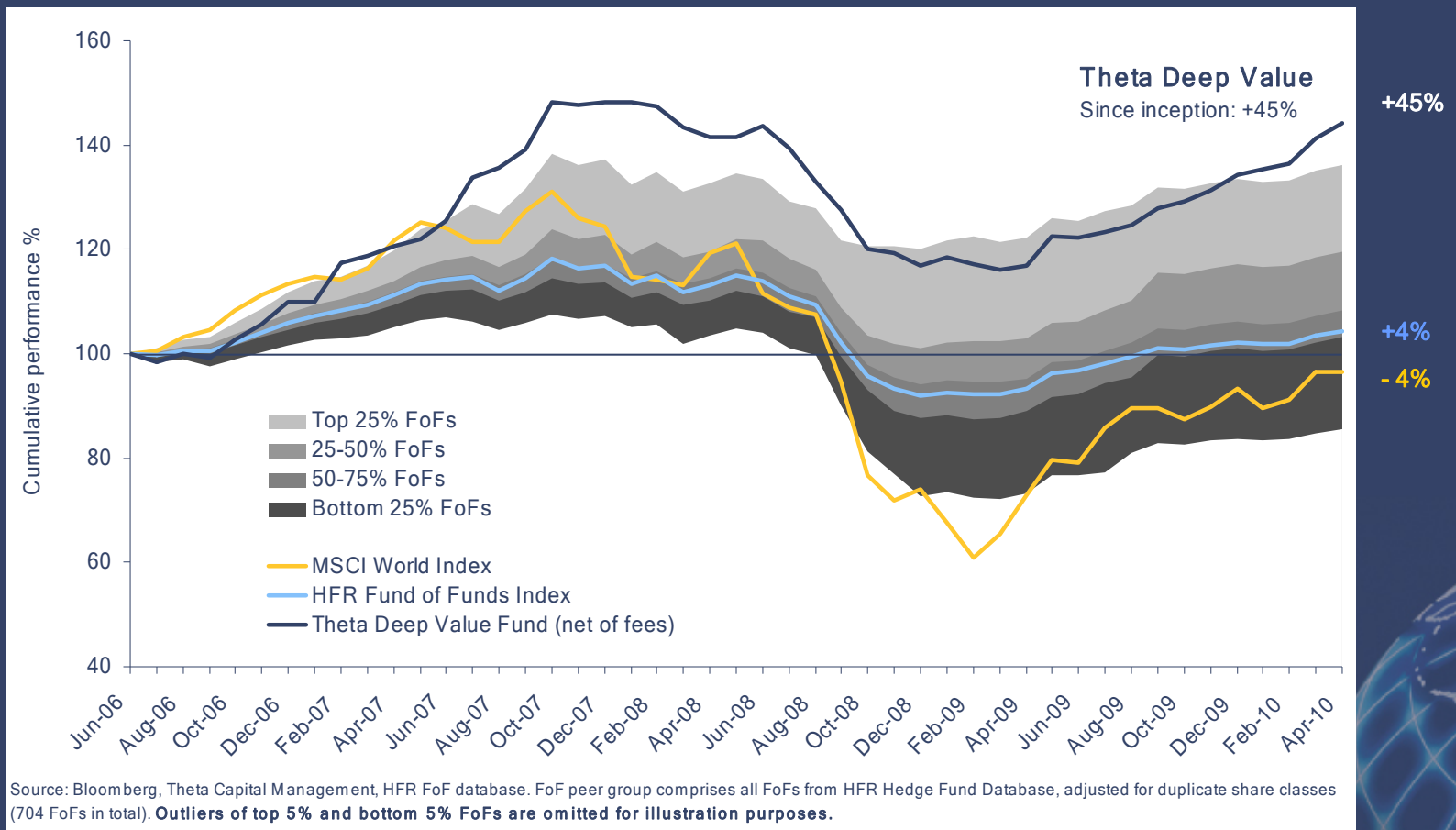
- Portfolio of 10-15 managers in often less liquid strategies
- Return target: 15%-20% per annum over a five-year period
- Capture illiquidity premium and significant upside potential
- Core consists of outstanding managers with whom Theta has long-standing investment relationships
- Reduced management fee and profit sharing only above 8% hurdle





# Theta Deep Value Fund

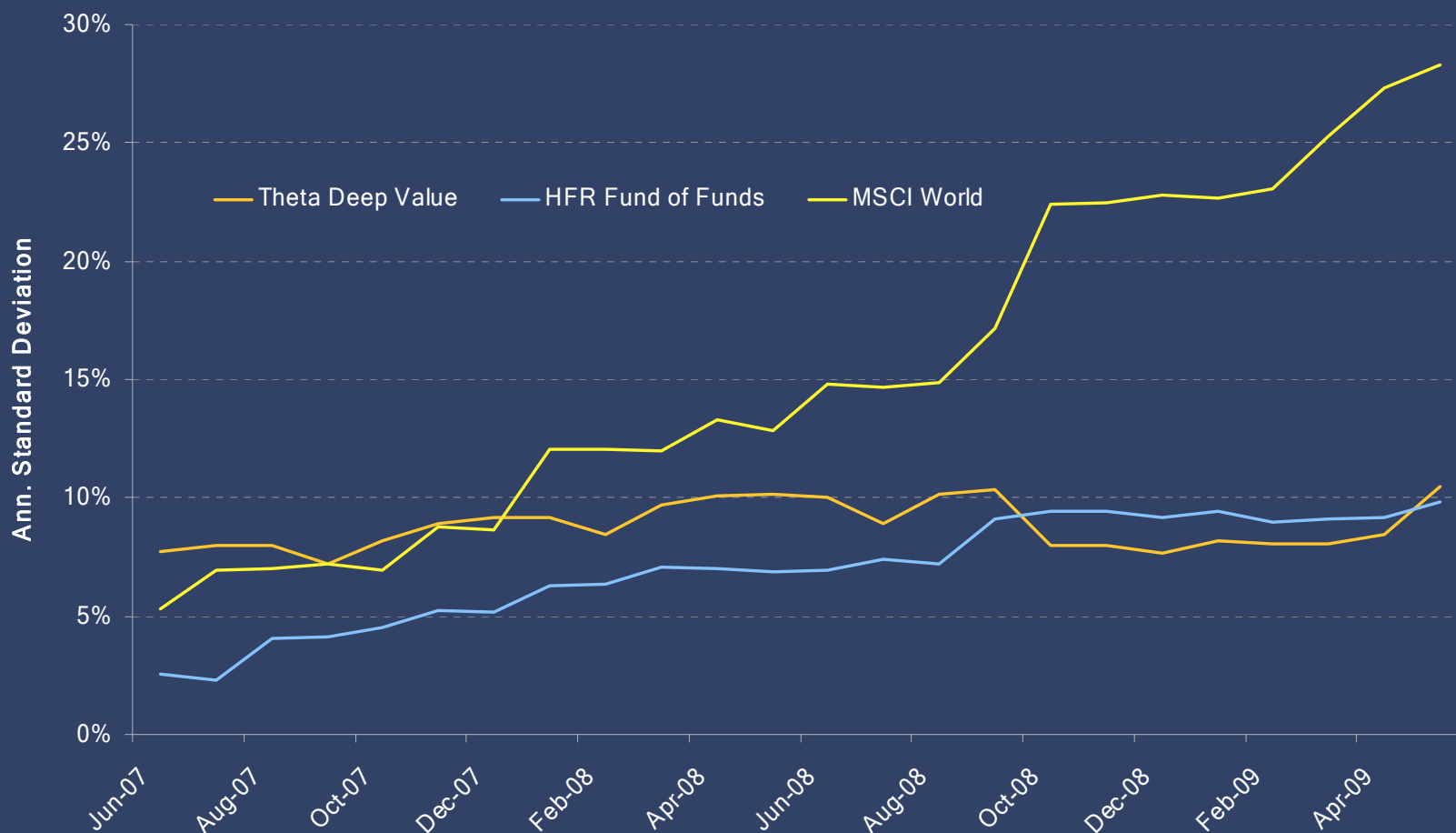
Outperformance versus HFR fund of funds universe (704 funds)





# Theta Deep Value Fund

Stable risk profile during the financial crisis

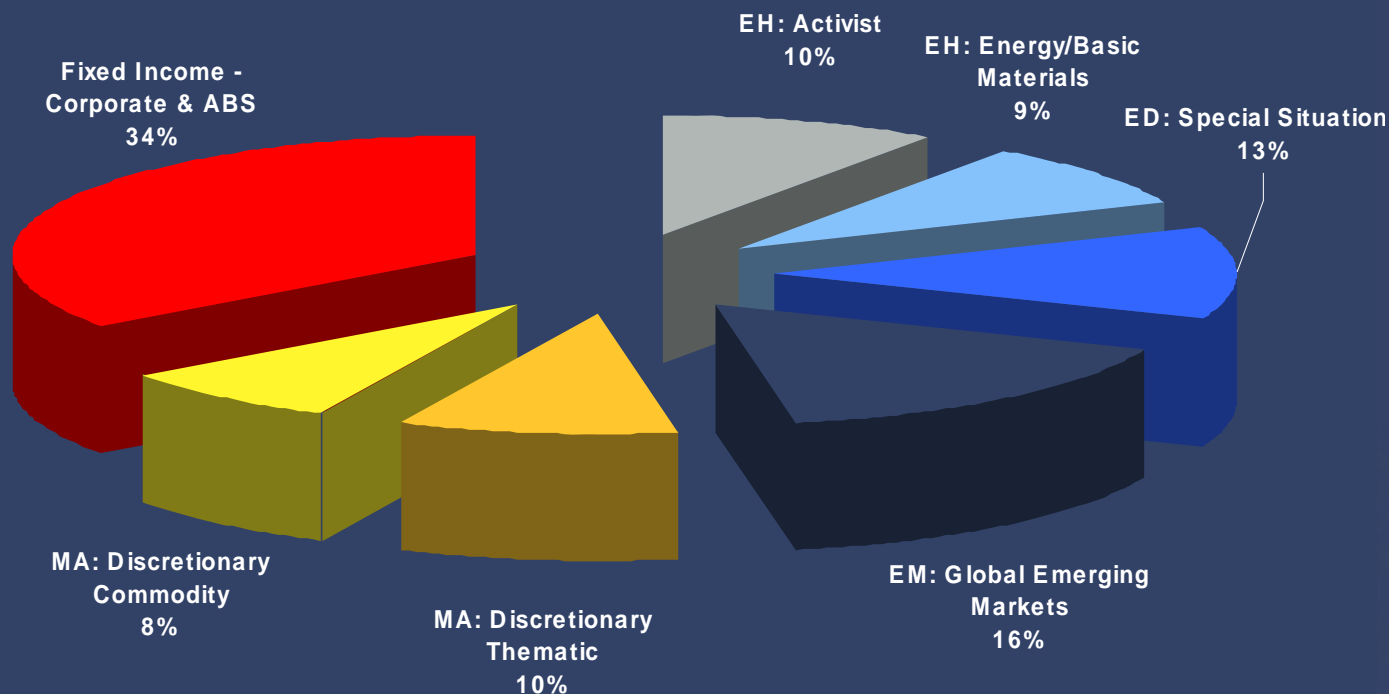




# Theta Deep Value Fund

## Strategy allocation May 2010

Theta Deep Value Fund - Strategy Allocation



- Portfolio is highly diversified across regions, markets, asset classes and investment strategies
- Average X-correlation between underlying hedge funds in portfolio = 0.11





# Theta Capital Management

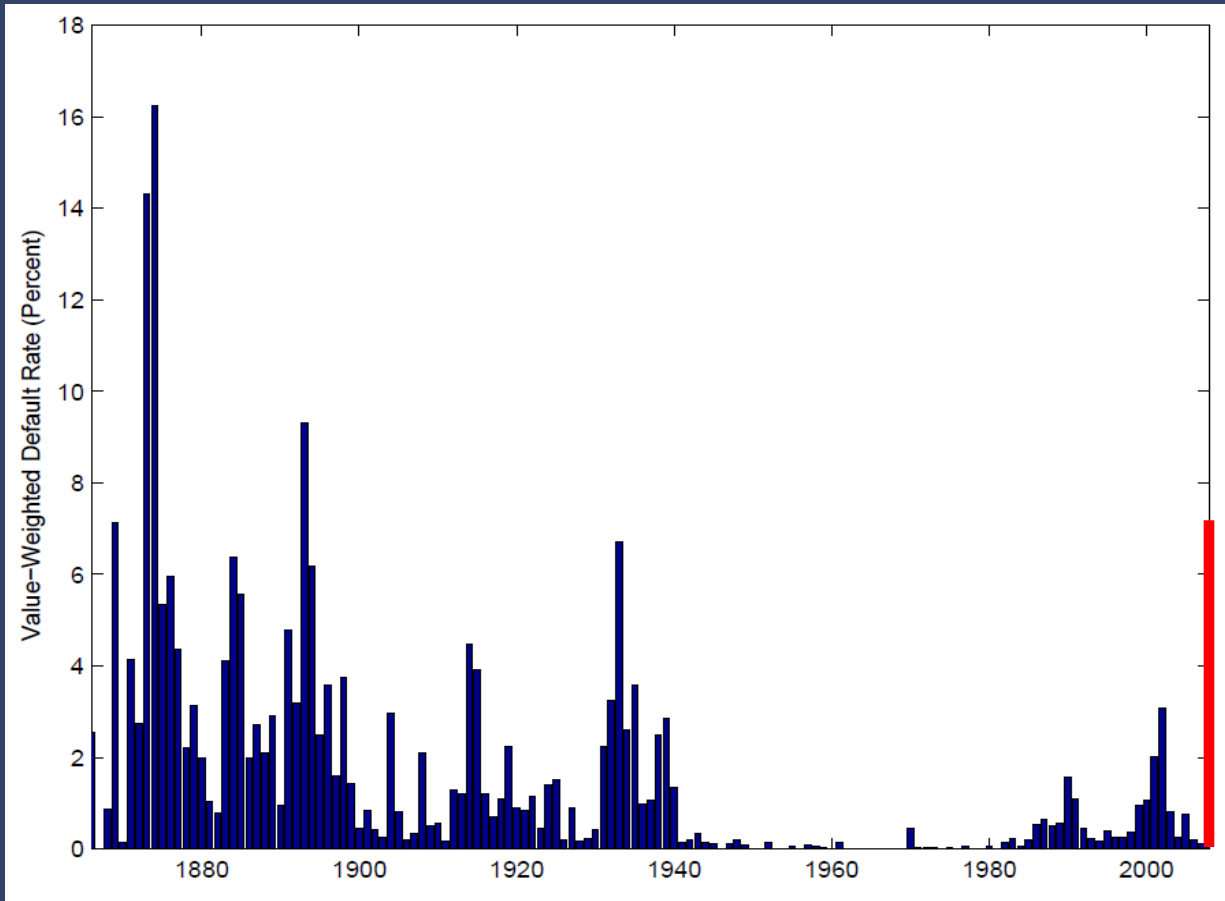
## Selected investment themes

- Recovery financials
- Post-reorganisation equity
- Distressed opportunities:
  - Corporate bonds & bank loans
  - Asset-backed securities
  - Sovereign debt





# 150 years of corporate defaults



Source: NBER Working Paper 15848, March 2010

2009: 7%

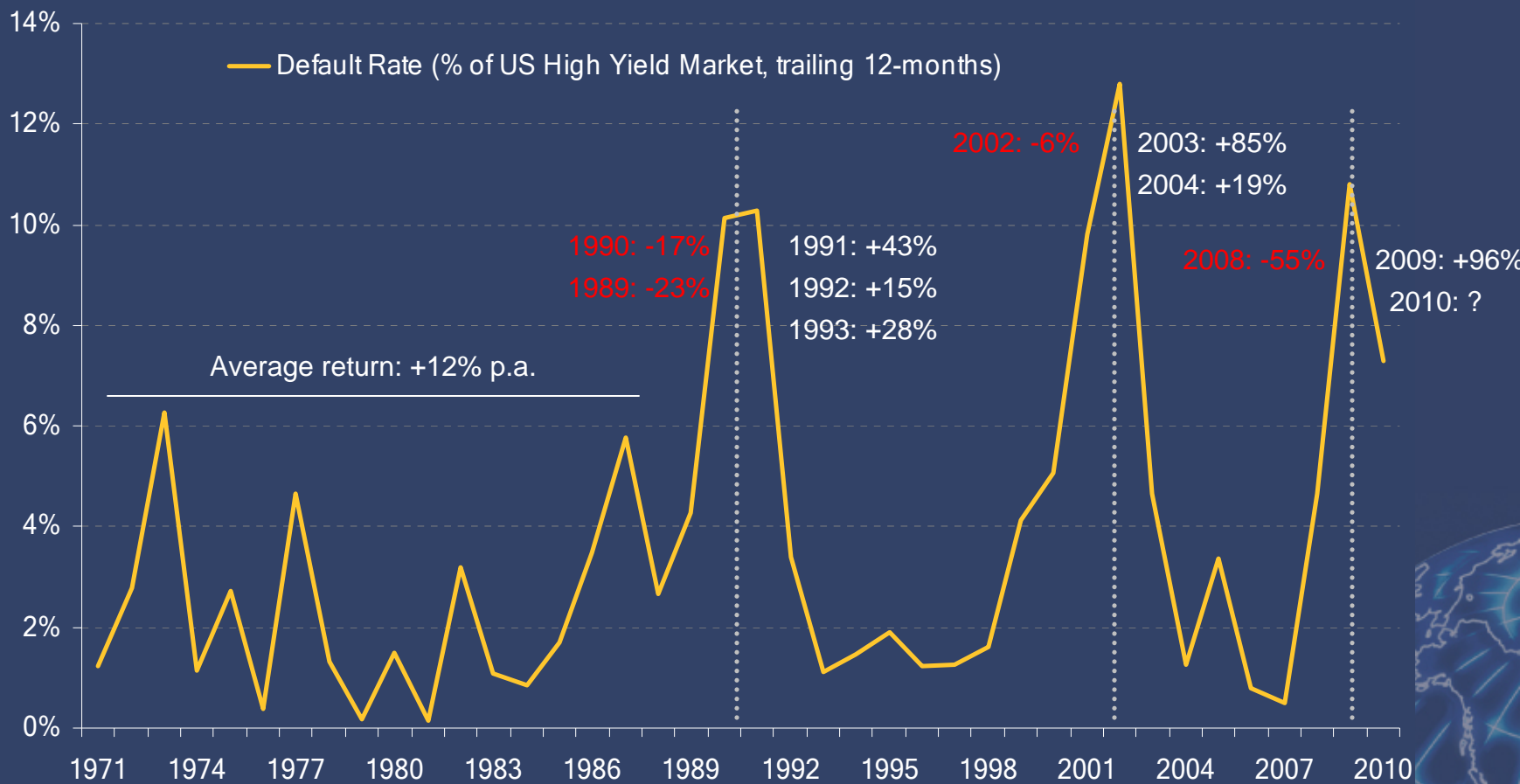
Figure 1. Historical Default Rates. This graph plots the annual value-weighted percentage default rates for bonds issued by domestic nonfinancial firms for the 1866–2008 period.





# Distressed market returns through the cycle

## Total return on Altman-NYU Defaulted Bond Index

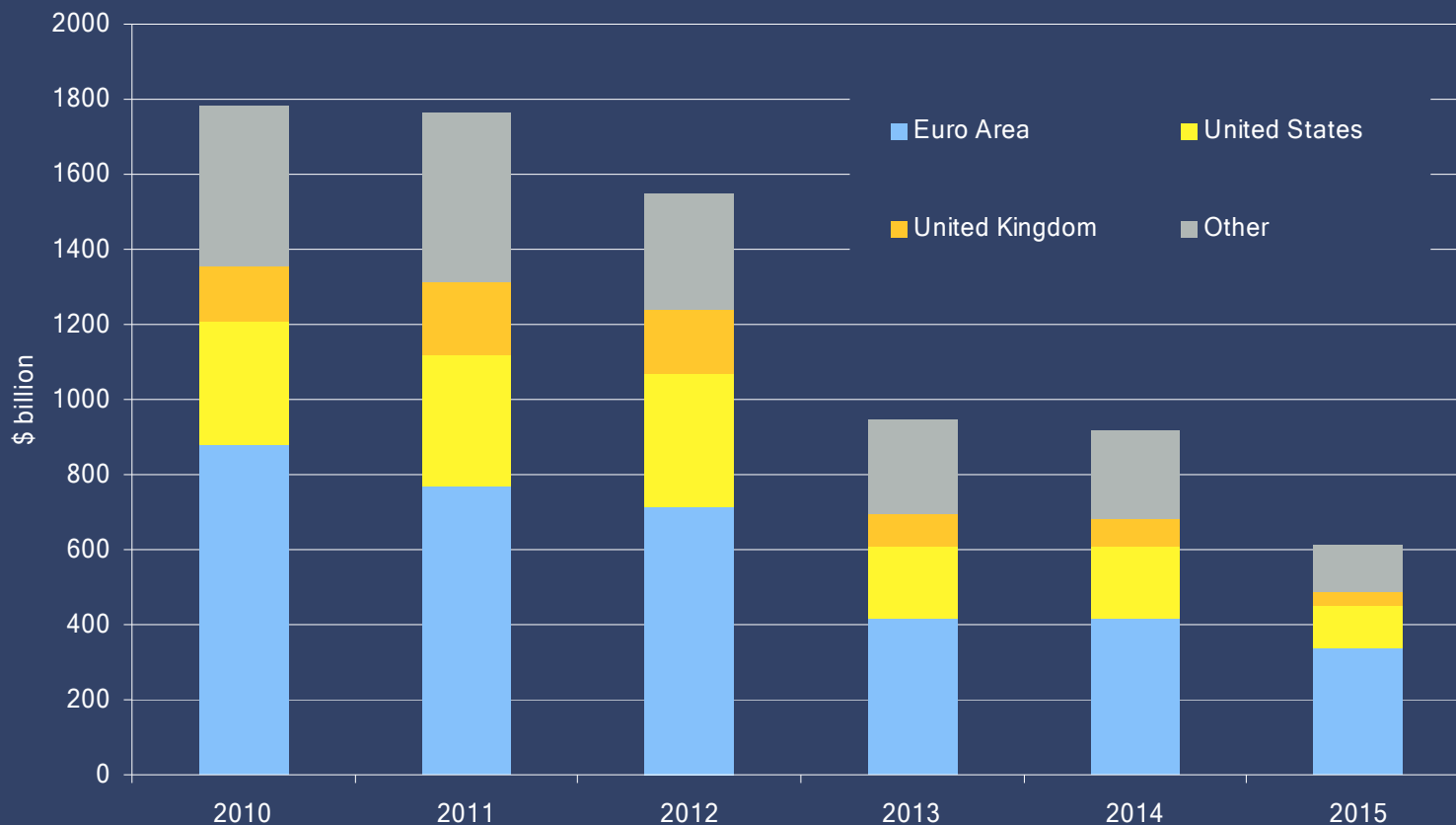




# Recovery in financials

## Financial sector faces a wall of refinancing

Bank debt rollover by maturity date



Source: IMF GFSR

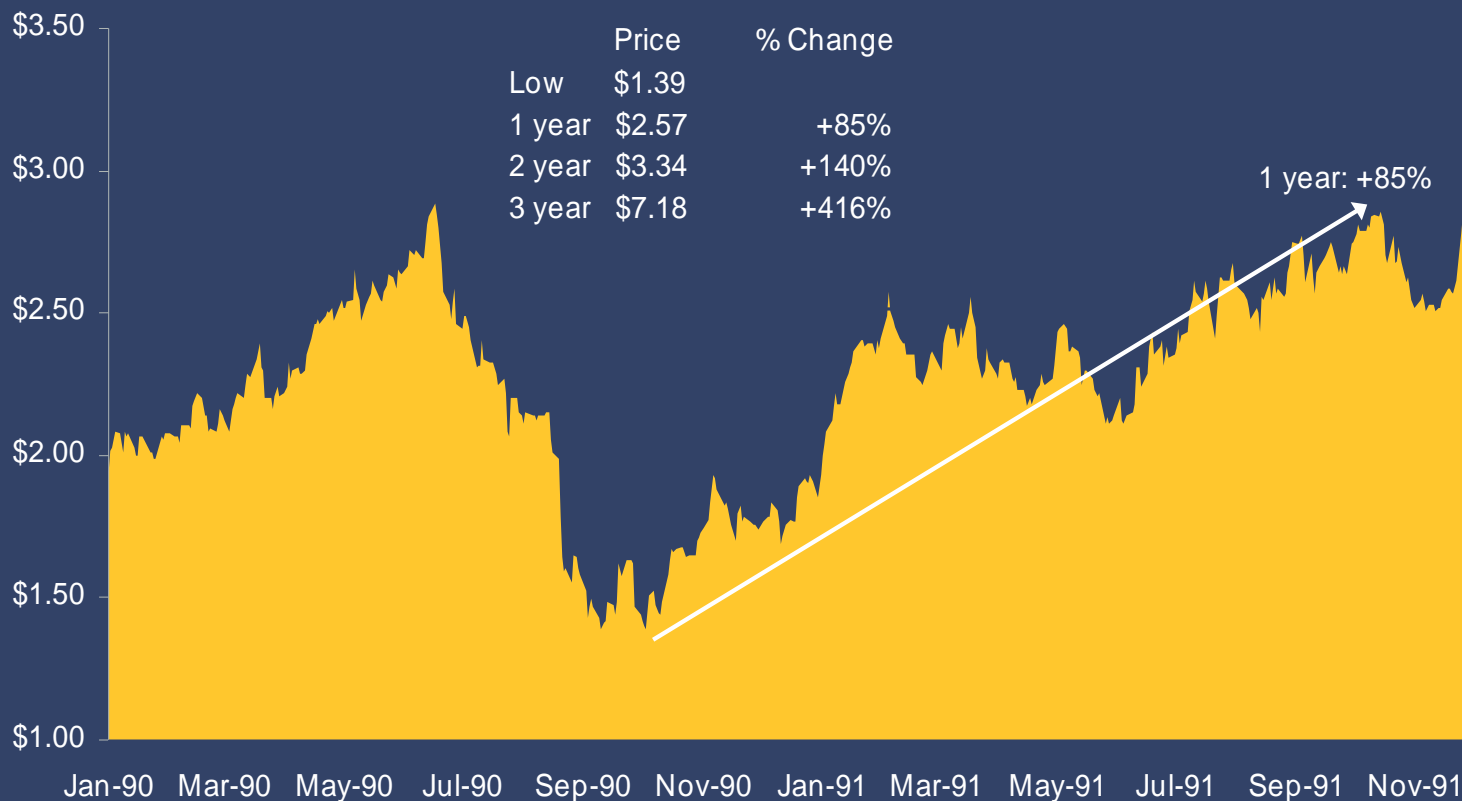




# Recovery in financials

No short-term play

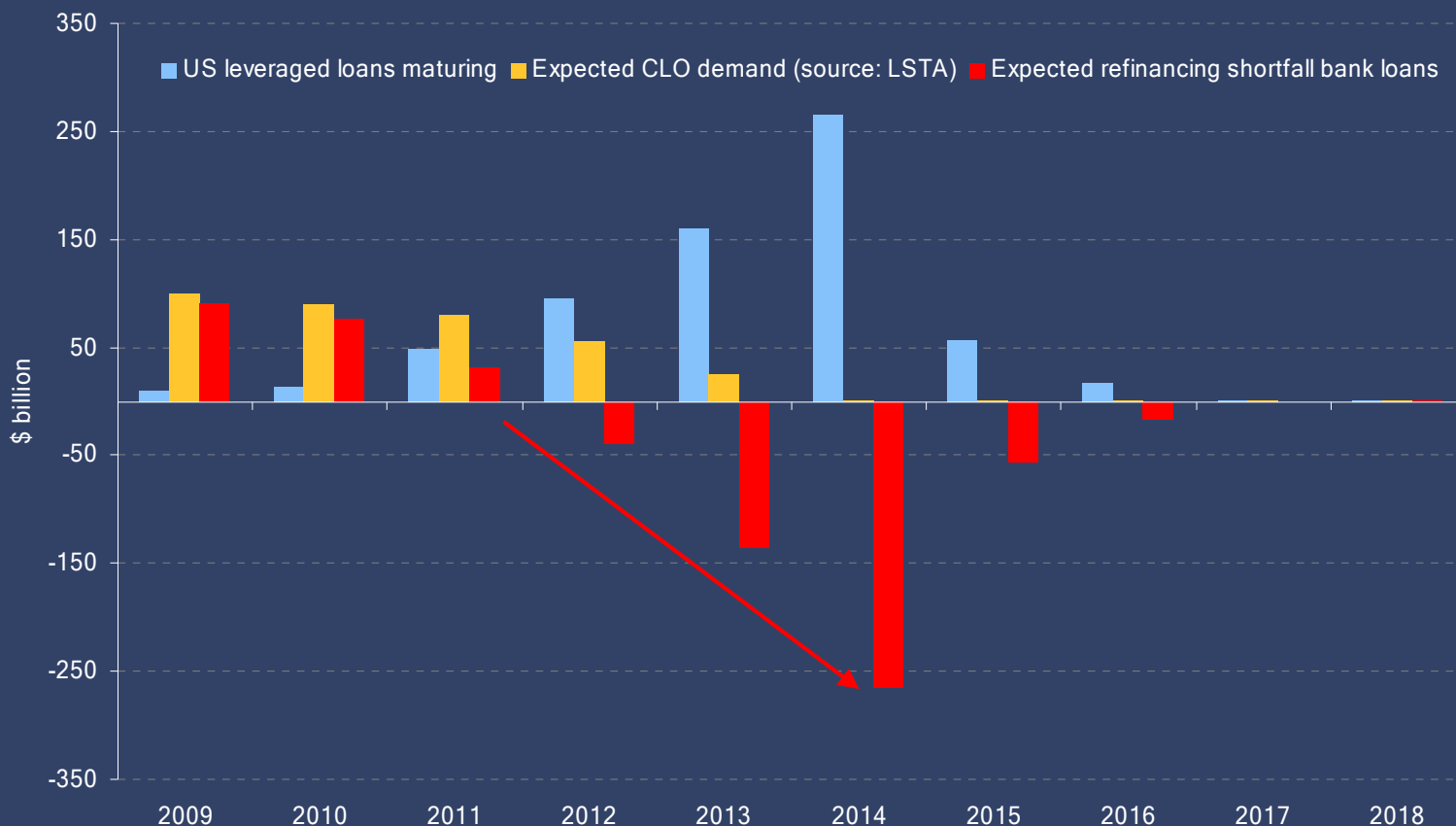
Citibank stock price





# Distressed opportunities for years to come

## Significant refinancing shortfall as CLO's are out of the game



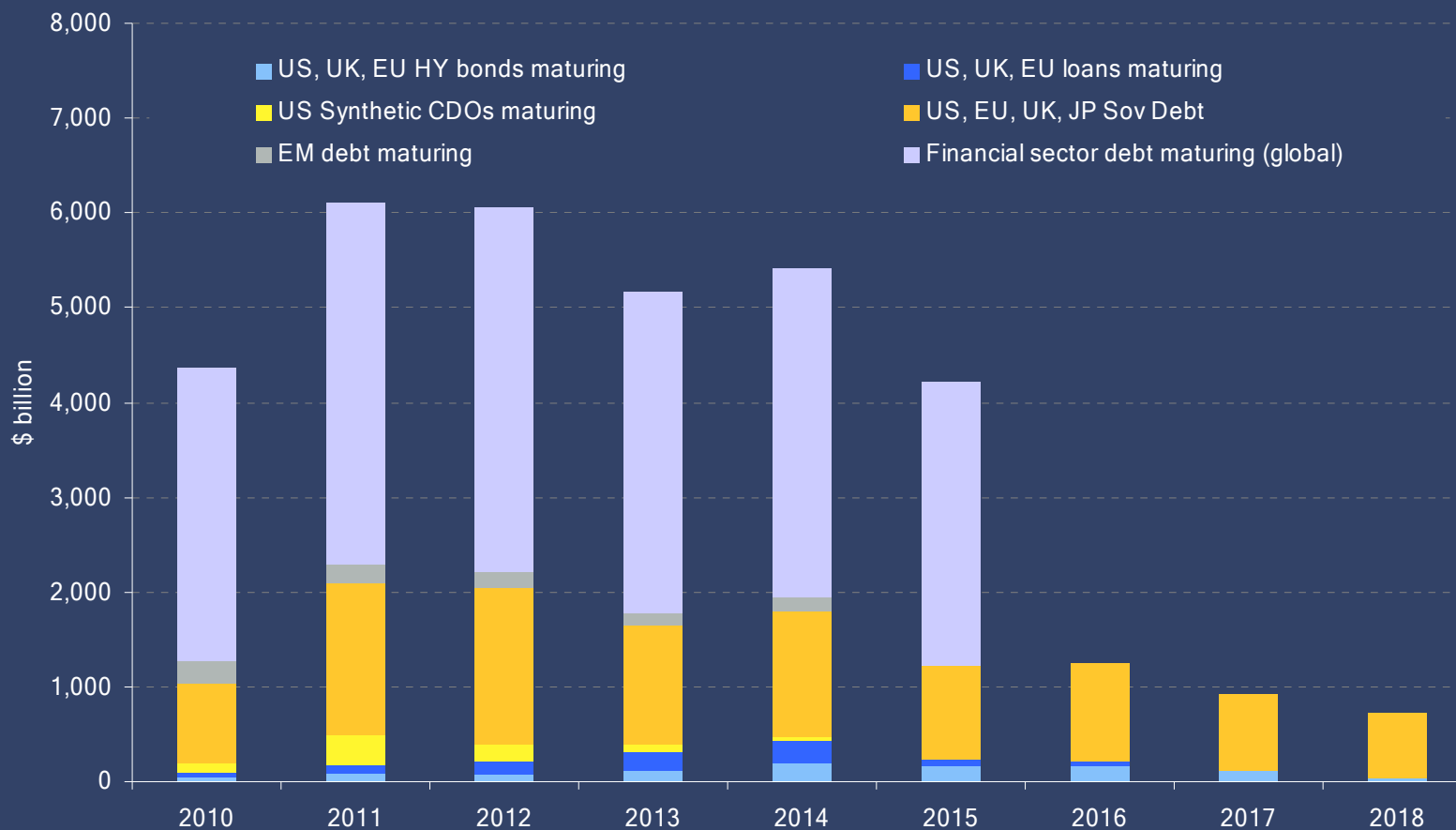
Source: S&P/LCD, LSTA, JP Morgan, calculations Theta Capital





# Wall of supply meets constrained demand

31% of the global bond market will be refinanced in next 5 years



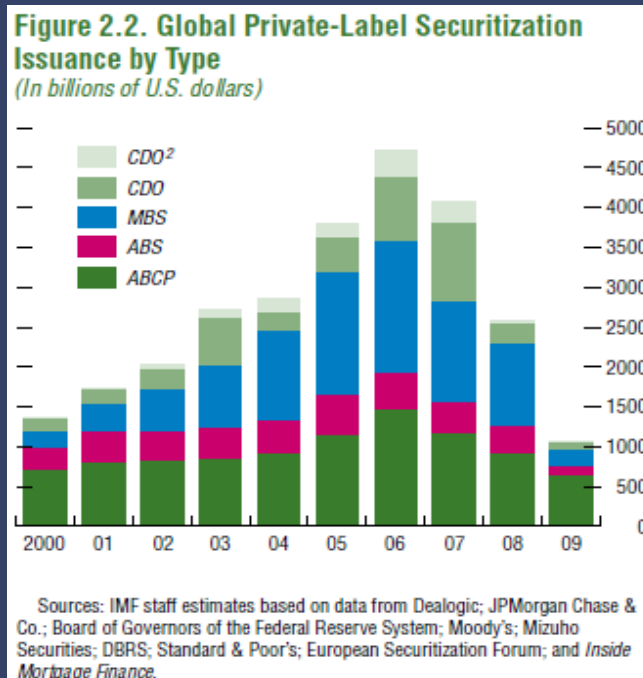
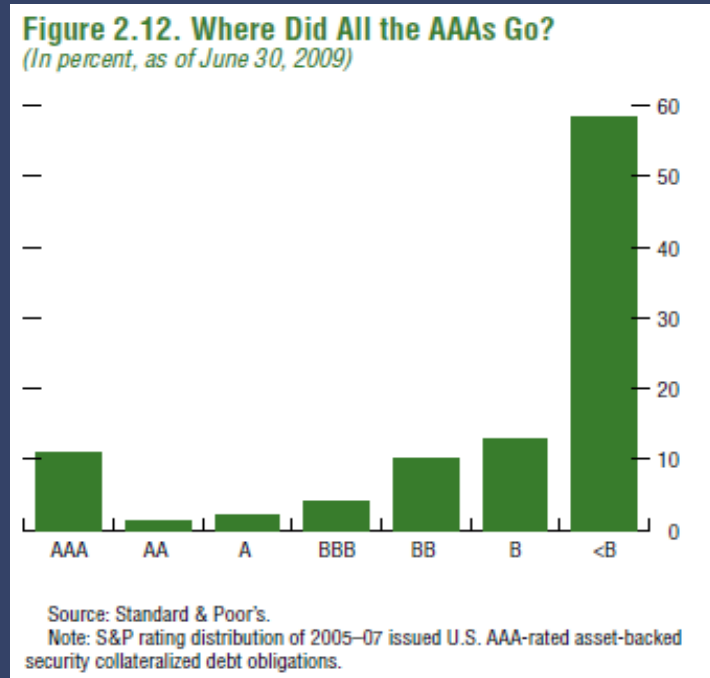
Source: S&P/LCD, LSTA, JP Morgan, IMF, GS, calculations Theta





# Distressed ABS opportunities

Supply-demand imbalance similar to corporate credit



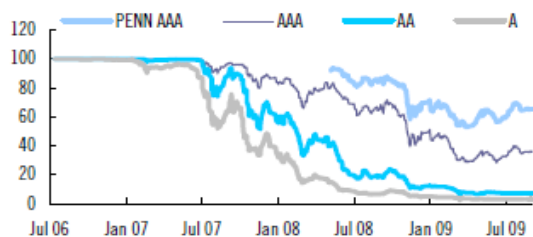
- Apart from the government-supported ABCP market, private securitized issuance is practically dead
- Refinancing is not available like in investment grade and high yield corporate bonds in 2009
- In the absence of new buyers, losses will be realized and debt structures resolved
- Of the \$500 billion in ABS CDO's, \$350 billion (70%) have already defaulted but only \$120 billion has been liquidated so far → great pipeline of opportunities ahead



# Value in distressed ABS

Deep value opportunities backed by real cash flows

Figure 30. ABX 06-2 Tranche Prices, Jul 06–Aug 09



Source: Markit and Citi Investment Research and Analysis

| ABX Tranches       | Market Price per 17 May 2010 (%) | Exp Avg Recovery by Moody's (%) | Implied Gain in ? Years (%) |
|--------------------|----------------------------------|---------------------------------|-----------------------------|
| ABX 06-2 Aaa (Pen) | 75%                              | 95%                             | 20%                         |
| ABX 06-2 Aaa (LCF) | 54%                              | 87%                             | 33%                         |
| ABX 06-2 Aa2       | 16%                              | 33%                             | 17%                         |
| ABX 06-2 A2        | 5%                               | 7%                              | 2%                          |
| ABX 06-2 Baa2      | 4%                               | 0%                              | -4%                         |

Source: Moody's. Recoveries are based on nominal principal payments, while market prices are based on time value of future principal and interest, credit risk and liquidity premia, and many other factors. Assumed weighted-average life of ABX Index is 5 years (matures in July 2011)

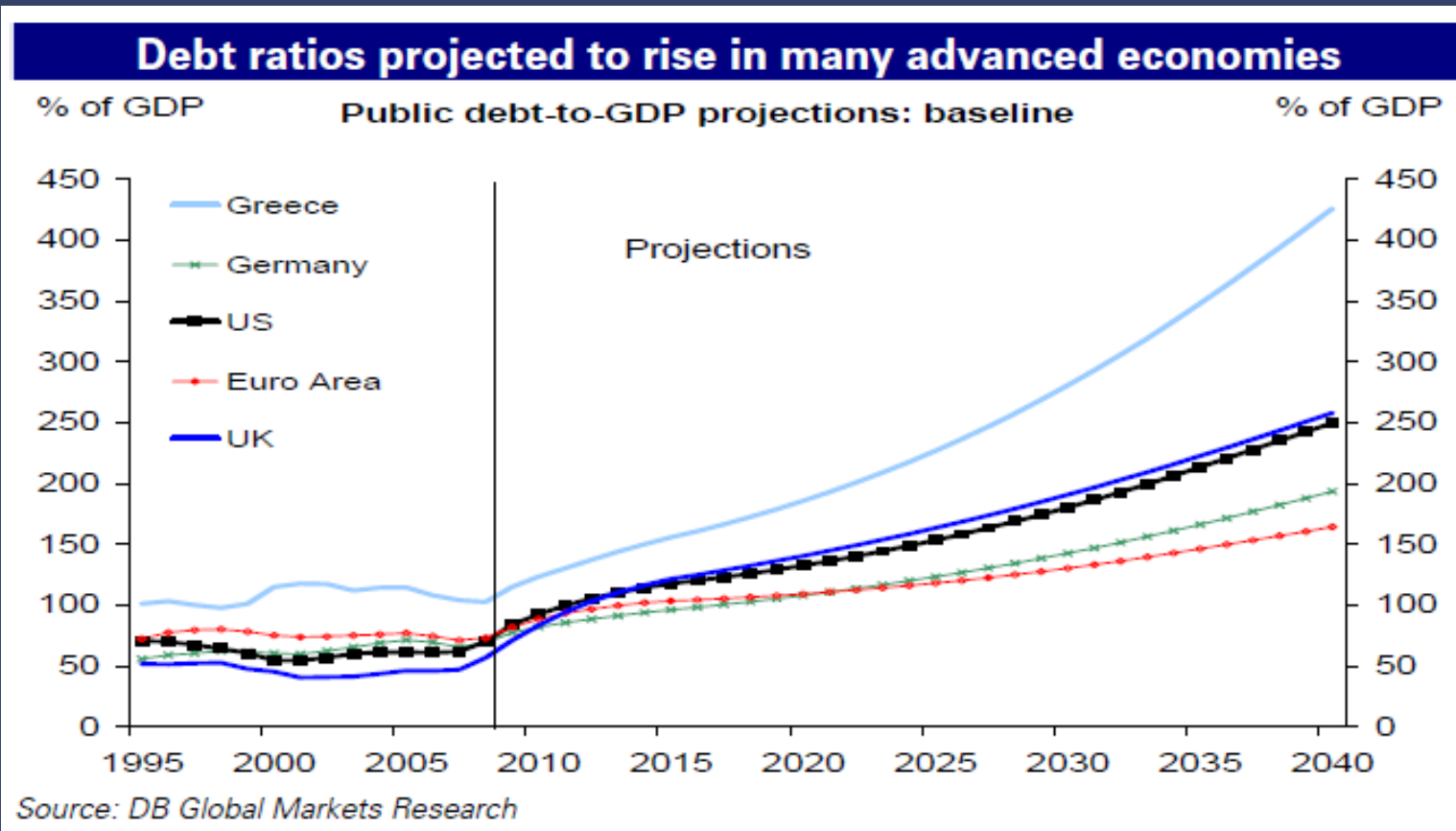
- US house prices seem to stabilize around a cumulative decline of -35%
- Complexity of instruments has prevented ABS from joining the momentum rally in corporate credit
- Not just projections, but actual experience of defaults
- Realized write-downs on subordinated tranches divert payments to senior tranches
- Strong fundamental credit & structuring skills allow managers to cherry-pick individual bonds with recovery potential, intermediate cash flows and structural protection features





# Sovereign opportunities

Public sector debt on unsustainable trajectory?

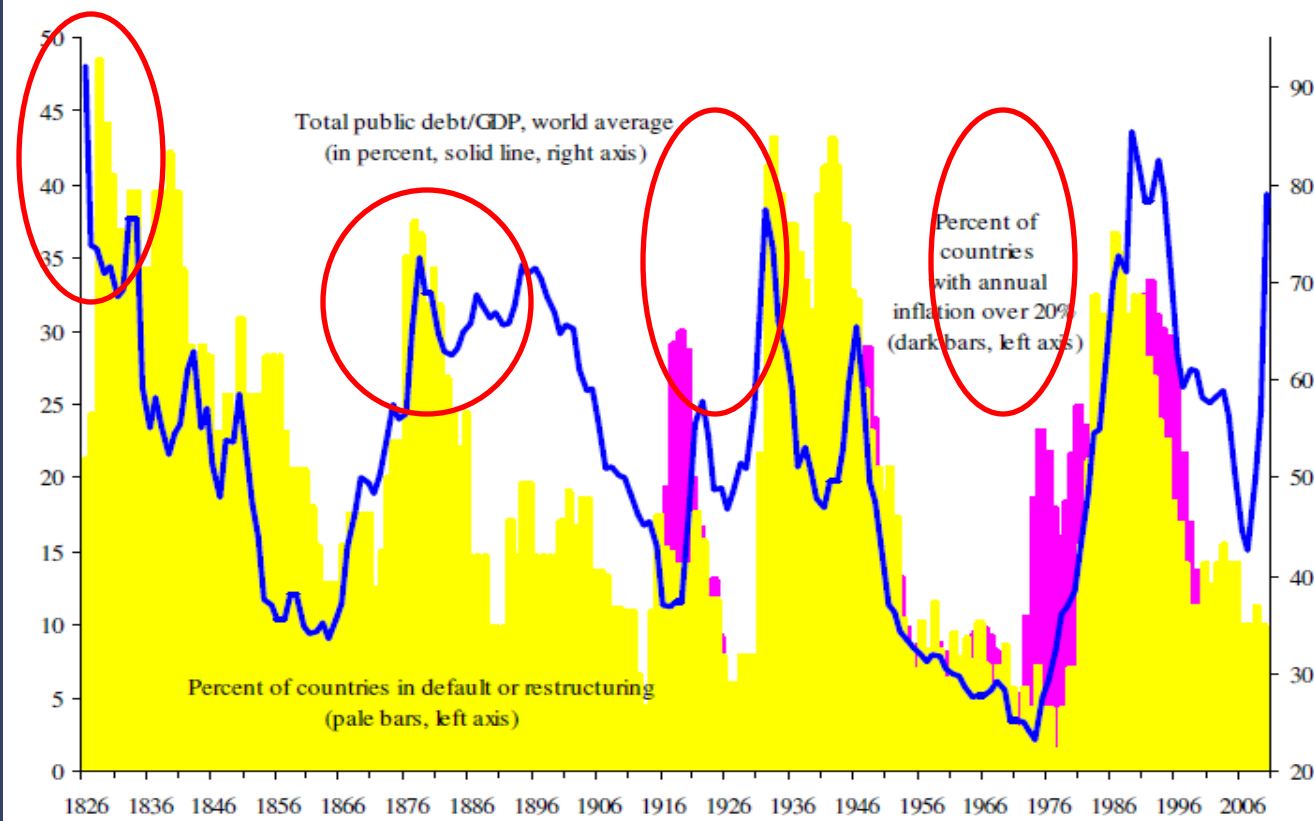




# Sovereign opportunities

## This time is different?

**FIGURE 3. Sovereign Default on External Debt, Total (domestic plus external) Public Debt, and Inflation Crises: World Aggregates, 1826-2010 (debt as a percent of GDP)**



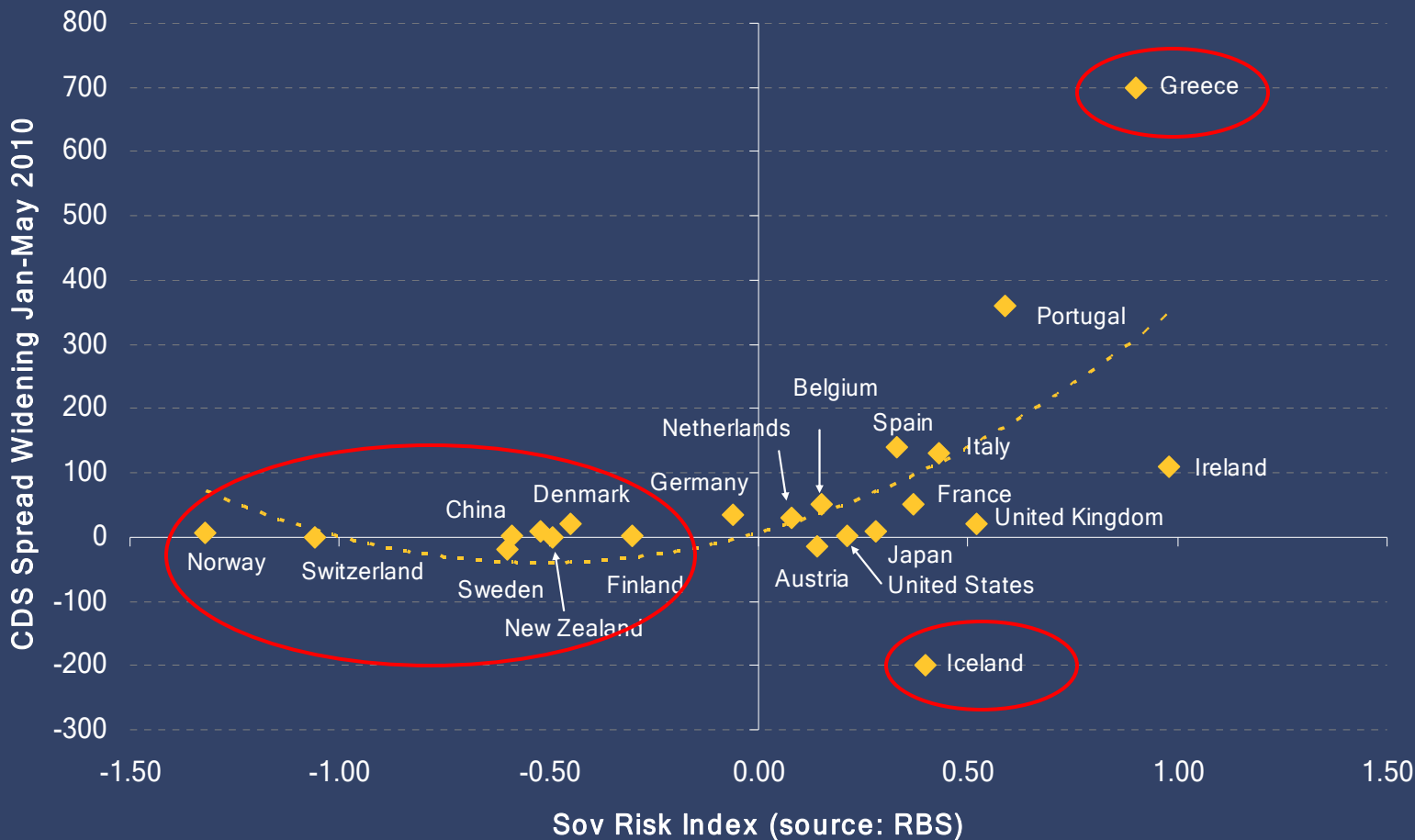
Source: *From Financial Crash to Debt Crisis*, Carmen Reinhart & Kenneth Rogoff, March 2010





# Sovereign opportunities

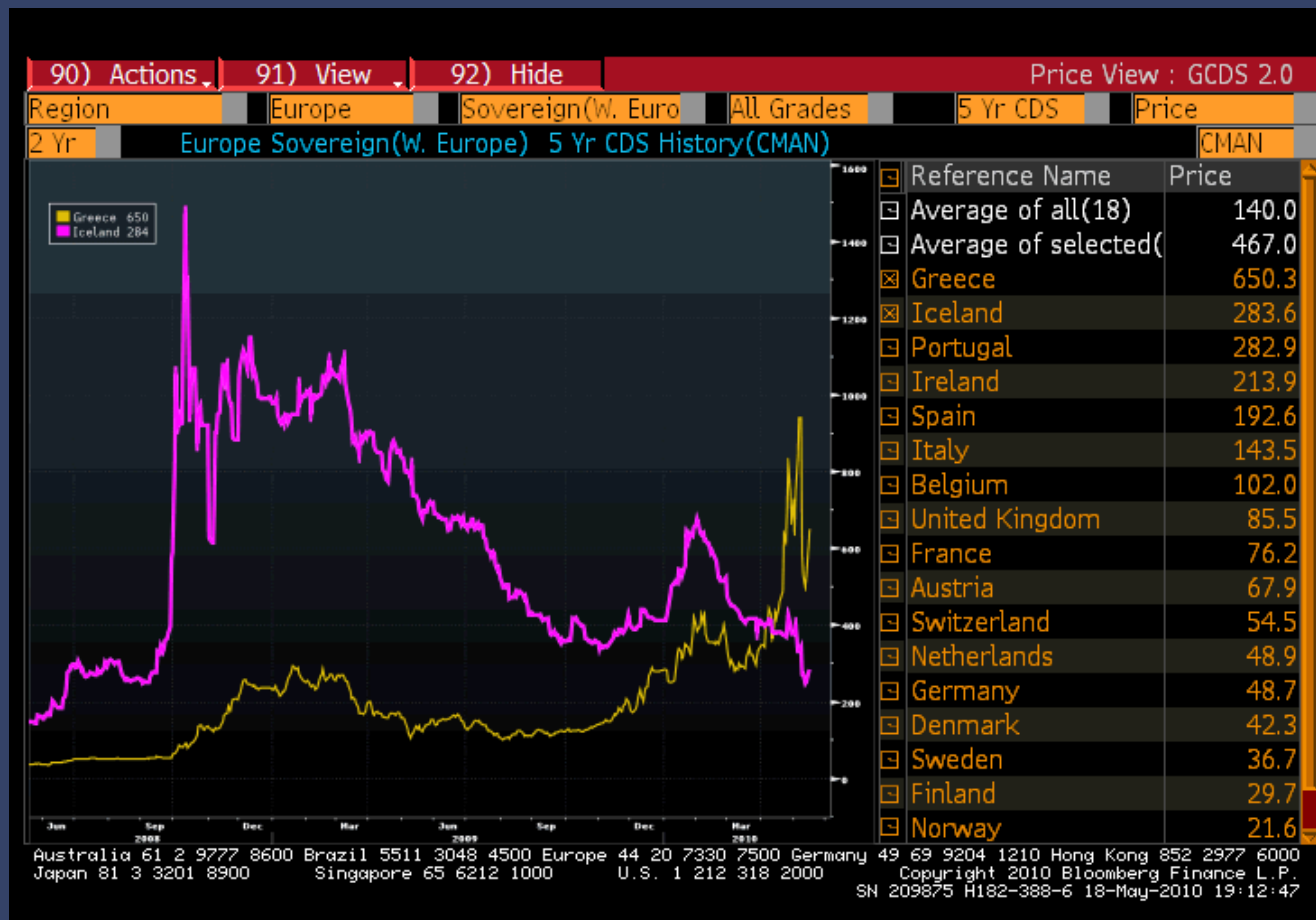
Time to separate the boys from the men...





# Sovereign opportunities

Time to separate the boys from the men...

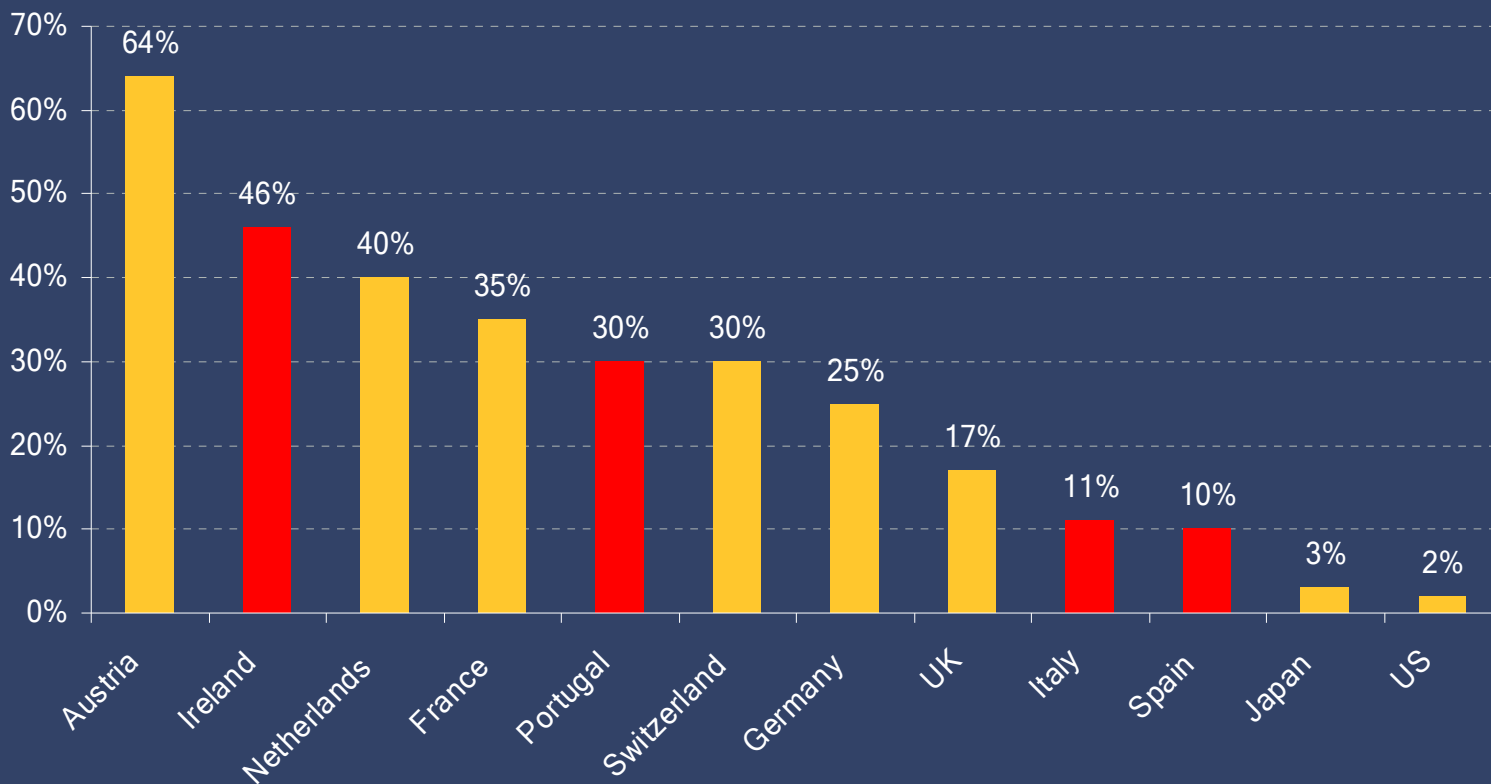




# European banks are vulnerable to PIIGS

Contagion within PIIGS countries is a problem

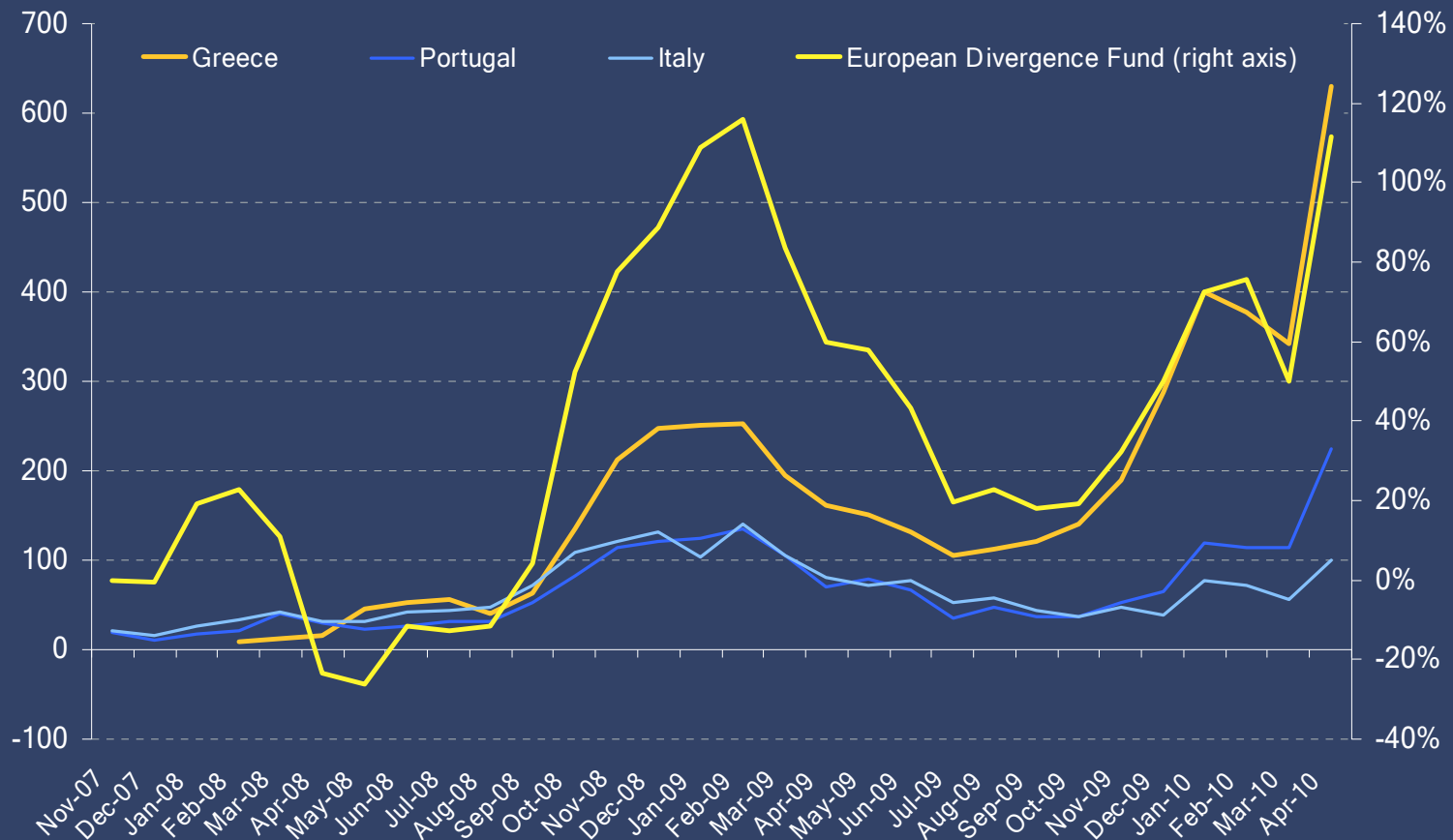
Banking sector exposure to 'troubled countries'  
(as % of GDP)





# Sovereign opportunities: European divergence

Short positions in PIIGS provide hedge on portfolio level



Source: Bloomberg, Theta Capital Management

Source: Bloomberg





## Contact Details

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