Theta Deep Value Fund

Deep value opportunities through the cycle

January 2010

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Theta Deep Value Fund

The proposition

- Portfolio of 10-15 hedge funds, diversified across regions, asset classes, markets and investment strategies
- Return target: 15%-20% per annum over a five-year investment horizon
- Capture significant upside potential associated with thematic investing:
  - Short subprime mortgages and corporate credit in 2007
  - Emerging market growth in 2006-2007
  - European sovereign debt trade in 2008
  - Distressed cycle in 2009 - ?
- Theta Deep Value allows seasoned independent thinkers to invest with a medium-term horizon (3 to 5 years)
- 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

Summary of investment terms

Investment objective	Target return 15-20% per annum, over 5-year investment horizon	
Investment styles	Distressed Corporate & ABS Credit, Event-Driven, Global Macro/Commodities	
Subscription frequency	Quarterly	
Redemption frequency	Quarterly with 90 days notice period	
	Class A	**Class B**
Initial lock-up	2 years	None
Redemption penalty	None	None
Gate (investor level)	25% per quarter	25% per quarter
Management fee (p.a.)	0.5%	0.5%
Performance fee (p.a.)	10%	15%
Hurdle rate	8% per annum	
Currency	EUR, USD	
Minimum investment	25,000	
Legal structure	Open-ended fund, fully regulated by AFM in the Netherlands	

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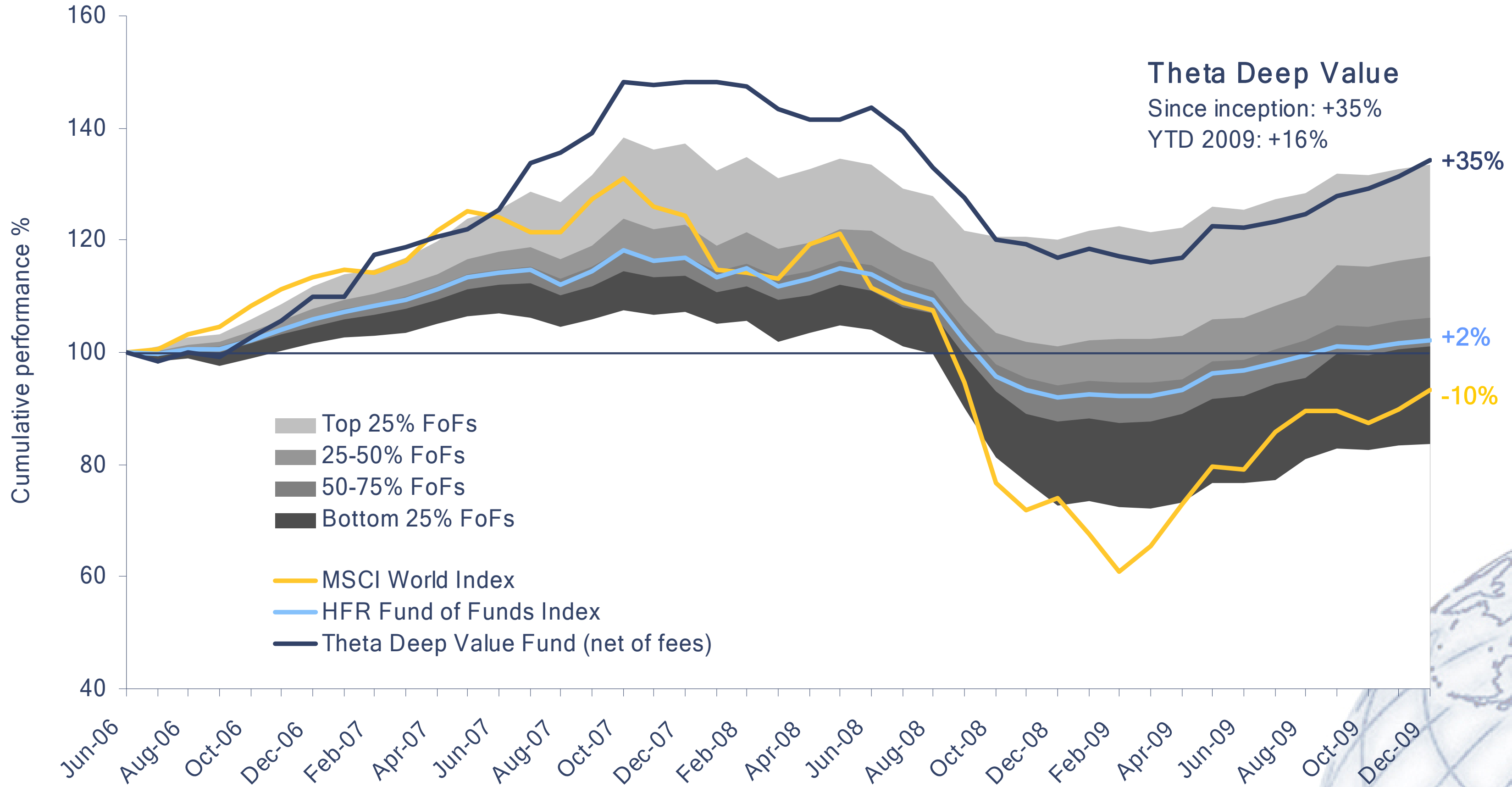
Outperformance versus HFR fund of funds universe (704 funds)



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.**

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Superior risk-return profile, consistent alpha and low correlation

July 2006 – Dec 2009	Theta Deep Value	HFRI FoF Index	ML High Yield Index	ML Gov Bond Index	MSCI World
Return p.a.	9.1%	-0.3%	5.5%	4.8%	-4.8%
Volatility	9.8%	7.8%	15.1%	8.2%	20.8%
Sharpe Ratio	0.52	-0.40	0.23	0.25	-0.27
Alpha p.a.	5.7%	-1.9%	5.2%	1.3%	-
Correlation to MSCI World	0.43	0.74	0.80	-0.67	1.00
Correlation to Gov Bonds	-0.42	-0.67	-0.59	1.00	-0.67
Best 12-Month Return	44.6%	15.5%	17.9%	20.3%	21.4%
Worst 12-Month Return	-21.6%	-21.4%	-30.1%	-3.8%	-48.4%
Max. Drawdown	-21.8%	-22.2%	-31.8%	-7.8%	-55.4%
Up Mkt Capture Ratio	31%	28%	62%	-14%	100%
Down Mkt Capture Ratio	4%	32%	44%	-38%	100%

(1) Track record of Theta Deep Value for Series 7/2006, net of all fees and expensen, since inception on 1 July 2006

(2) Max Drawdown calculates the worst peak-to-trough performance

(3) Mkt Capture Ratio calculates the portion of the MSCI World performance that was captured by a manager or portfolio under up- or down markets. A Down Mkt Capture Ratio below zero means that the manager of portfolio has on average generated positive performance when the MSCI World had a negative performance

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Theta Deep Value Fund

Monthly returns since inception (July 2006)

Theta Deep Value Fund - Performance (Series July 2006)

2006	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
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%	
2007	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**FY**
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%	
2008	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**FY**
Net Performance	0.17%	-0.45%	-2.39%	-1.18%	0.25%	1.69%	-2.80%	-4.48%	-3.94%	-5.78%	-0.58%	-1.82%	**-19.57%**
Cumulative Performance	45.39%	44.73%	41.28%	39.61%	39.96%	42.32%	38.34%	32.14%	26.93%	19.60%	18.90%	16.74%	
2009	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**FY**
Net Performance	1.61%	-1.11%	-0.91%	0.77%	4.90%	-0.22%	1.05%	1.12%	2.62%	1.00%	1.78%	2.20%	**15.76 %**
Cumulative Performance	18.65%	17.33%	16.27%	17.16%	22.90%	22.64%	23.93%	25.32%	28.66%	29.95%	32.26%	35.17%	

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

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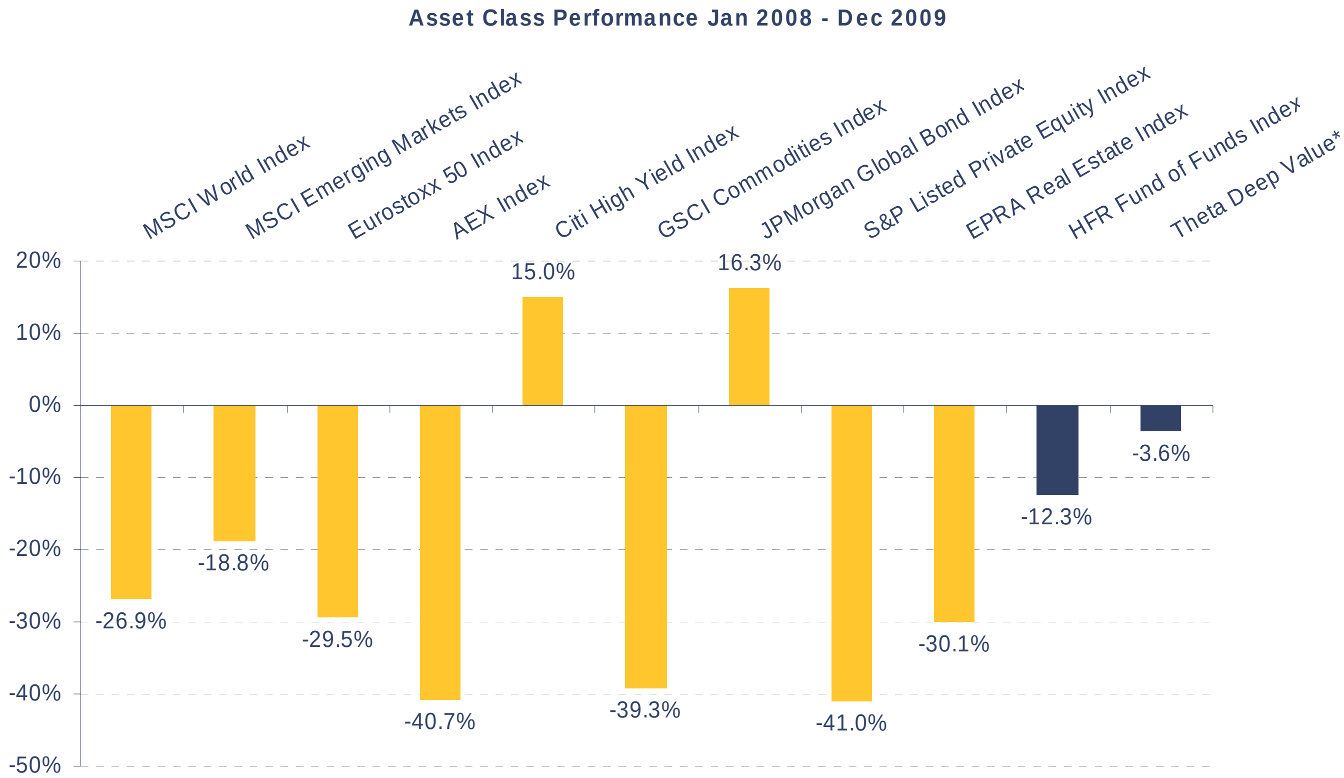
Even after the rally, risky assets are still well under water...

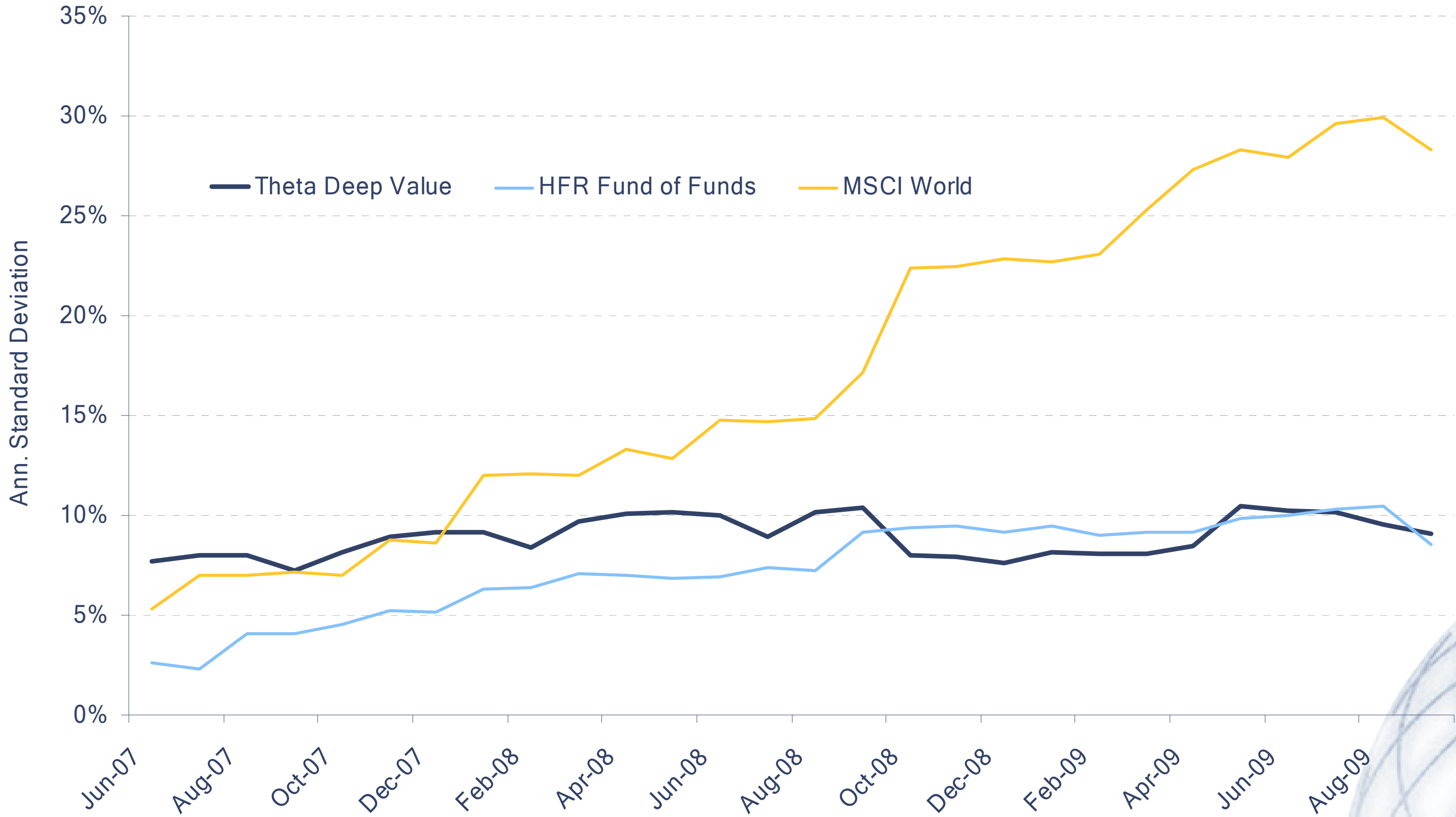


Non-listed private equity: estimated 2008 writedowns are 40-50% (Source: Bloomberg)

- ... while Theta Deep Value Fund is almost back to its previous peak

Theta Deep Value Fund

Stable risk profile throughout the financial crisis



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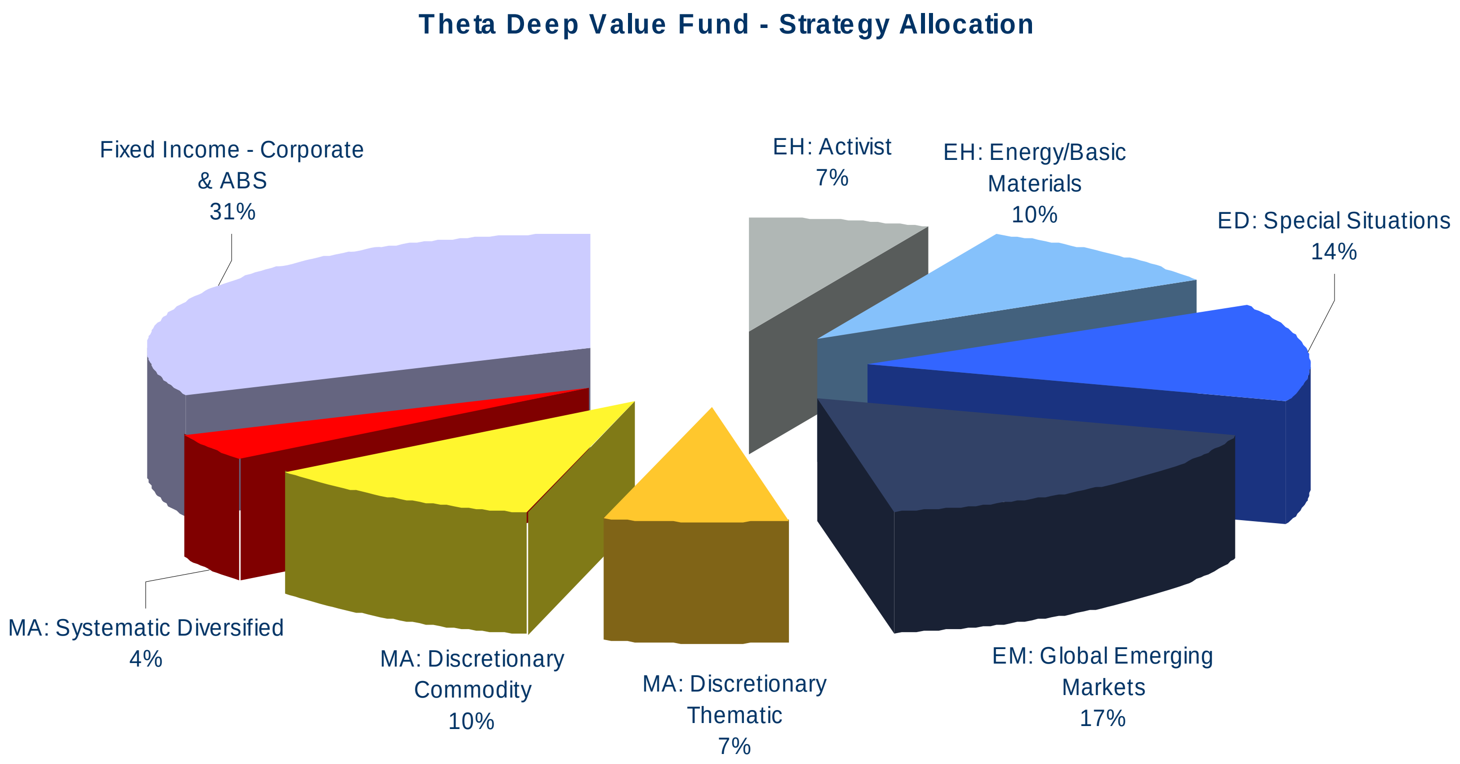
Strategy allocation

December 2009



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

Theta Deep Value Fund

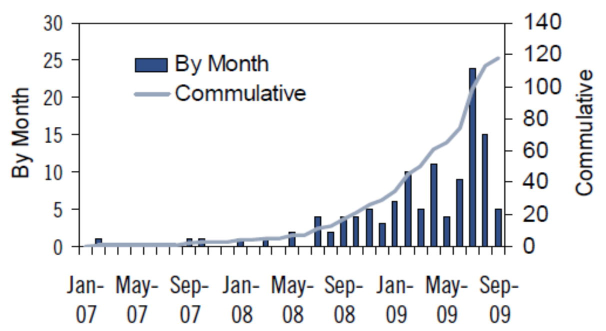
Current investment themes & opportunities

- Recovery financials
- Distressed corporate & ABS credit
- Commodities / Energy
- Global macro
- Emerging markets
- Activist investing

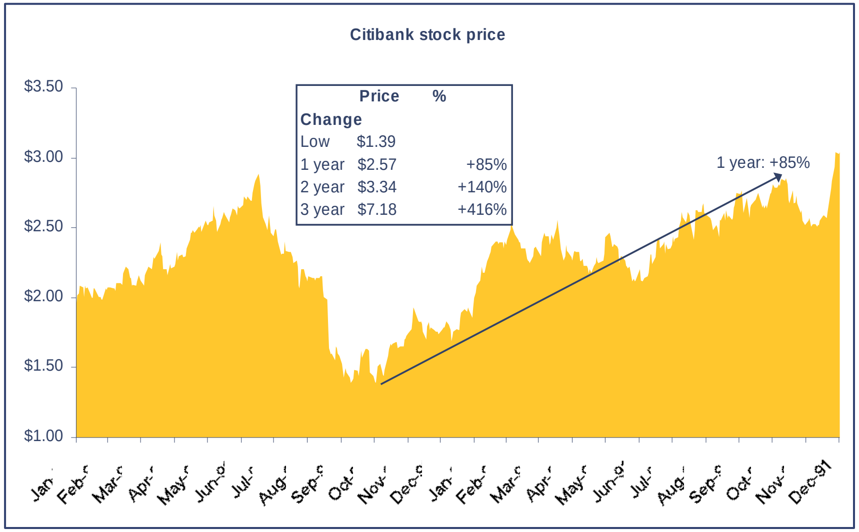
Recovery in financials

Plenty of restructuring opportunities but no short-term play

Figure 12. Failed Banks



Source: FDIC



Source: Bloomberg

- Bank stocks tend to move together in the short run, but ultimately prices will reflect fundamentals regarding profitability, expected loan losses and the outlook for a successfull restructuring
- Regional US banks have more exposure to commercial and residential mortgage markets: 12% of banks have commercial real estate epxosure exceeding 5X their Tier 1 capital
- Opportunity in debt of finance companies: the alphabet soup of TARP, TALF, PPIP and TLGP will prevent defaults, but recapitalizations will dilute the equity. Some yields on debt of financials still in the 20%+ range
- Focus on asset side of banks' balance sheets, credit costs and required re-capitalizations
- This will be a multi-year process driven by company-specific events (see right chart)

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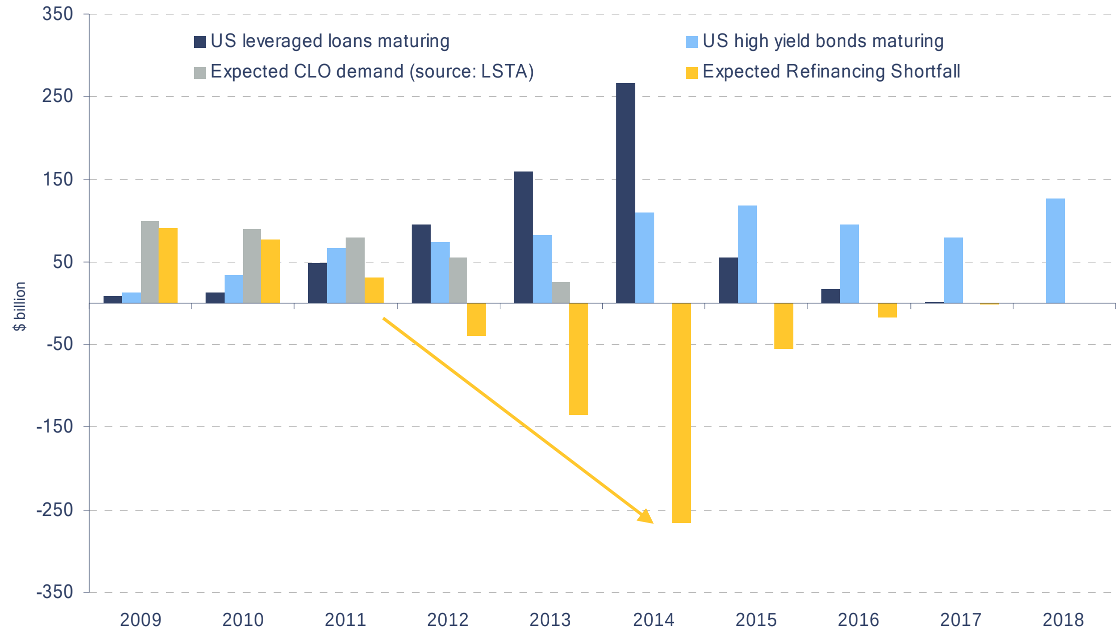
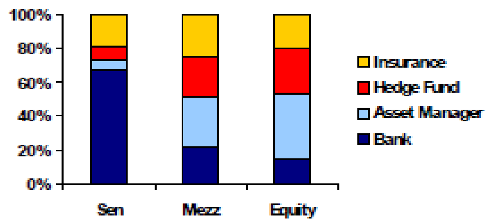
Distressed opportunities for years to come

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



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

Figure 9. CLO Primary Buyers 2006-2007



Source: Citi Investment Research and Analysis

- From 2011 to 2014, 89% of the US bank loan market will have to be refinanced
- With current CLO's entering the end of their reinvestment periods, they will not be able to refinance these maturing loans. Banks' prop desks and insurance companies are selling risk instead of buying
- Therefore, the loan market faces a refinancing shortfall – who will pick up the slack?

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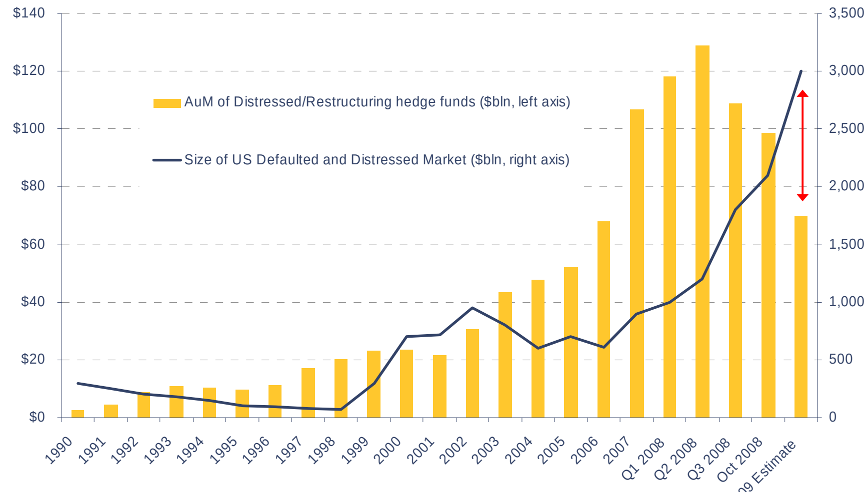
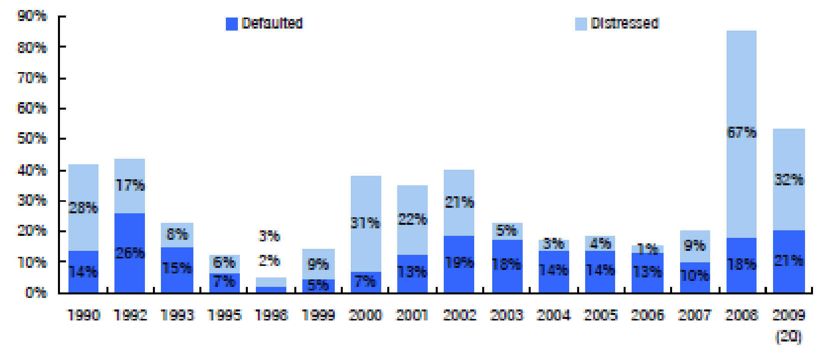
Supply-demand imbalance in high yield debt

Less capital chasing an historically large opportunity set



Source: Altman NYU, HFR, Theta Capital

Figure 16. Defaulted and Distressed[a] Debt as a Percentage of Total High-Yield Plus Defaulted Debt Market,[b] 1990–2Q 09[c]



[a] Defined as the option-adjusted spread greater than or equal to 1,000bp over comparable-duration Treasuries. [b] $1.453 trillion as of June 30, 2009.
[c] Some years not available as no estimates were attempted.
Source: NYU Salomon Center.

- With bank proprietary capital and hedge fund AuM reduced significantly, a smaller pool of money is chasing a larger set of distressed opportunities
- Defaults may come in waves with multiple peaks – higher for longer
- Potential “fallen angels” from investment grade universe
- Capital structures have become more complex in recent years: inter-creditor disputes
- Private equity funds – awash with cash to invest – have become active in control situations
- Strong skills in fundamental credit selection and restructurings (game theory) will be rewarded

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Yield analysis of typical debt capital structures

Current market pricing leaves plenty of investment opportunities

	Avg Market Price ($)	Avg Yield-to-Worst	Avg Current Yield
1st Lien (secured)	78.6	16.1%	5.7%
2nd Lien (secured)	78.6	14.4%	10.2%
Senior Bonds (unsecured)	87.8	15.4%	9.8%
Mezzanine	74.5	25.9%	19.4%
Subordinated bonds	64.8	23.4%	19.3%
Average	76.8	19.1%	12.9%

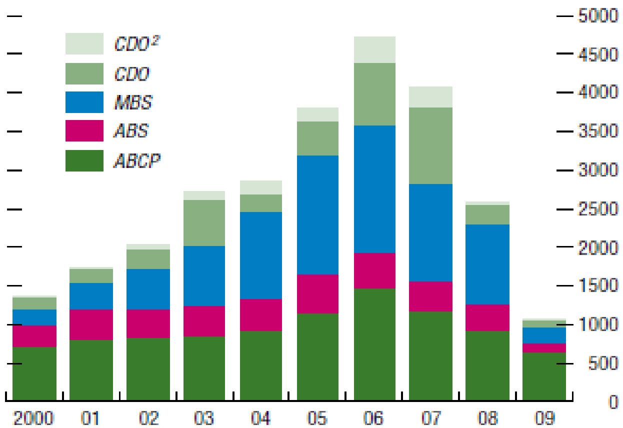
CLO Tranche	Avg Market Price ($)	Coupon Spread	Avg Yield-to-Worst	Cumulative Break-Even Default Rate
AAA	75-85	L + 25-40	6-9%	84.2%
AAA-junior	60-70	L + 30-50	9-14%	80.7%
AA	45-60	L + 40-90	11-16%	69.3%
A	25-45	L + 70-180	15-35%	55.2%
BBB	5-20	L + 150-250	30+%	44.3%

- Soucre: Golden Tree Asset Management. Market pricing per 31 August 2009.
- Implied cumutative defaults of loans (market pricing per 31 August 2009): 44%. Calculation: Implied Cumulative Default = (1 - Market Price) / (1 - Recovery Rate) = (1 - 0.78) / (1 - 0.50) = 44%
- Current cumulative CLO default rates stand at 10-11%

Distressed ABS opportunities

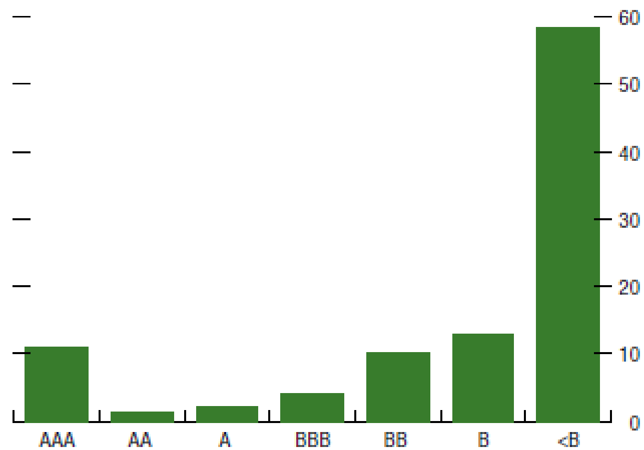
Supply-demand imbalance similar to corporate credit

Figure 2.2. Global Private-Label Securitization Issuance by Type
(In billions of U.S. dollars)



Sources: IMF staff estimates based on data from Dealogic; JPMorgan Chase & Co.; Board of Governors of the Federal Reserve System; Moody's; Mizuho Securities; DBRS; Standard & Poor's; European Securitization Forum; and *Inside Mortgage Finance*.

Figure 2.12. Where Did All the AAAs Go?
(In percent, as of June 30, 2009)



Source: Standard & Poor's.
Note: S&P rating distribution of 2005–07 issued U.S. AAA-rated asset-backed security collateralized debt obligations.

- 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

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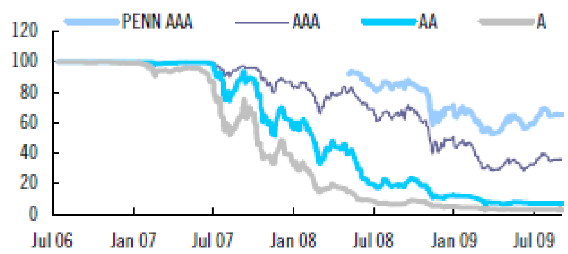
Value in distressed ABS

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 30 Sep 2009 (%)	Exp Avg Recovery by Moody's (%)	Implied Gain in 2 Years (%)
ABX 06-2 Aaa (Pen)	72%	95%	23%
ABX 06-2 Aaa (LCF)	42%	87%	45%
ABX 06-2 Aa2	10%	33%	23%
ABX 06-2 A2	4%	7%	3%
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.

- 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

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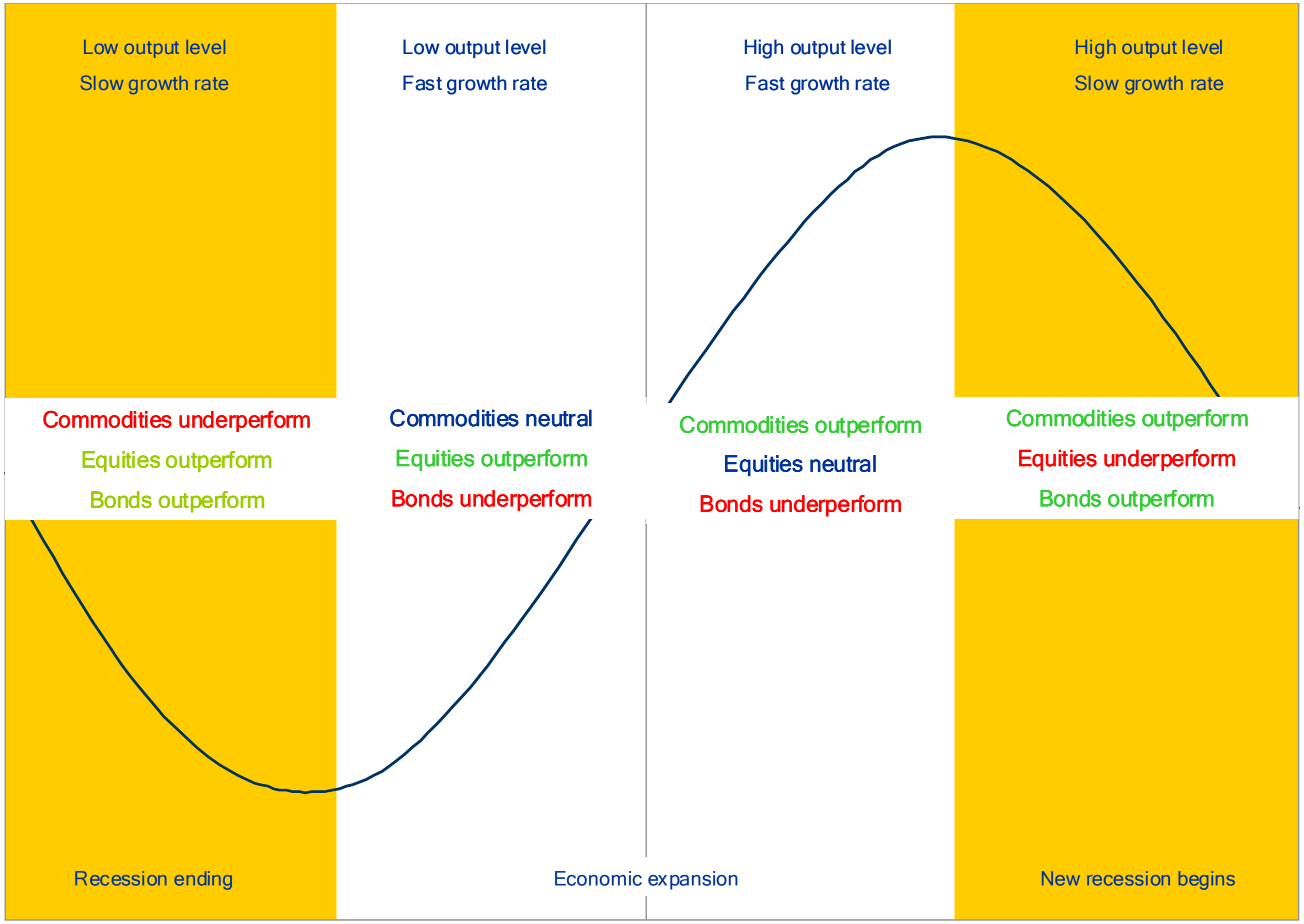
Investment opportunities

Commodity investing through the cycle



Source: GS ECS Research, Theta Capital Management. Data for period 1970-1996

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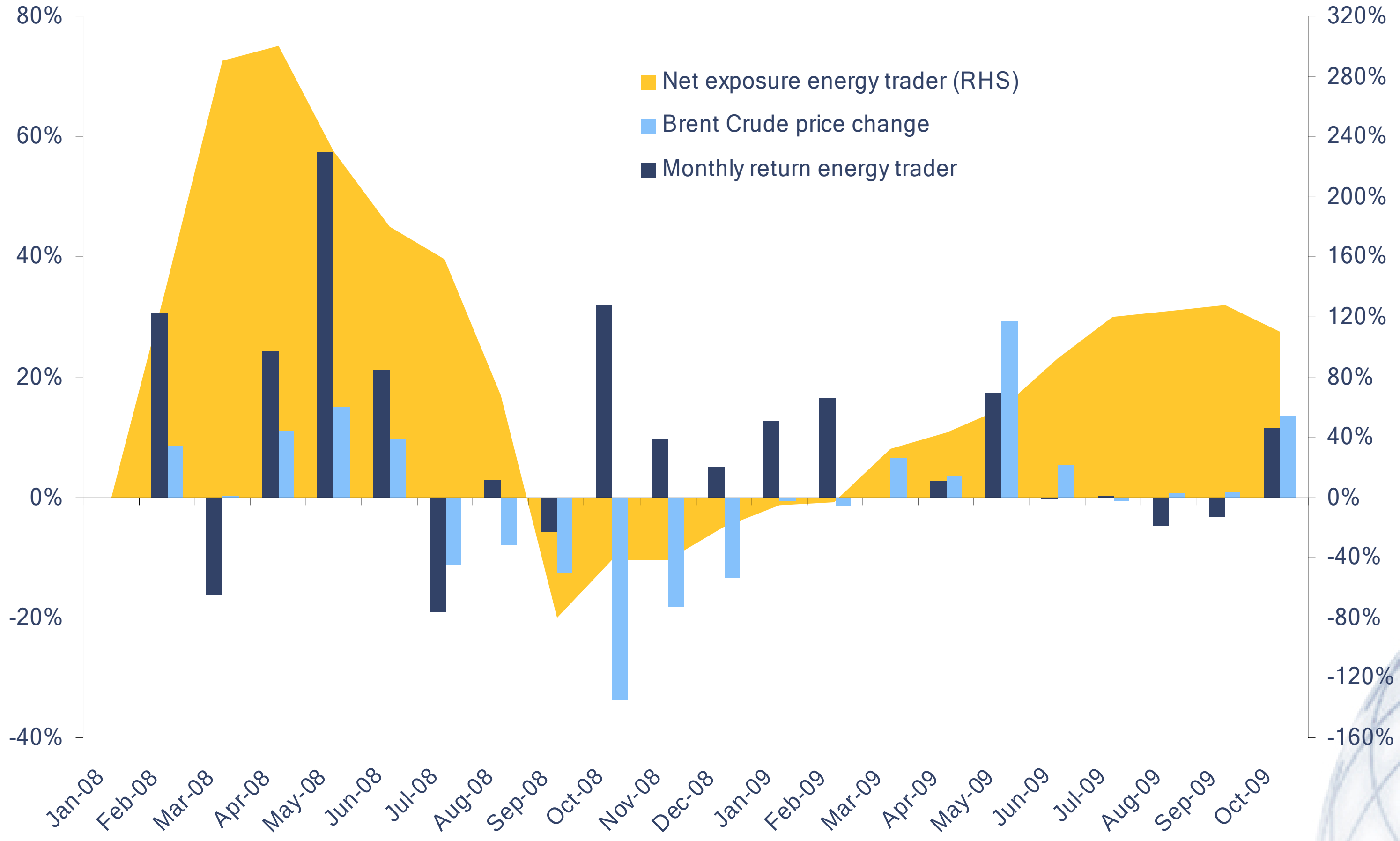
Investment opportunities

Discretionary trading commodities: active exposure management



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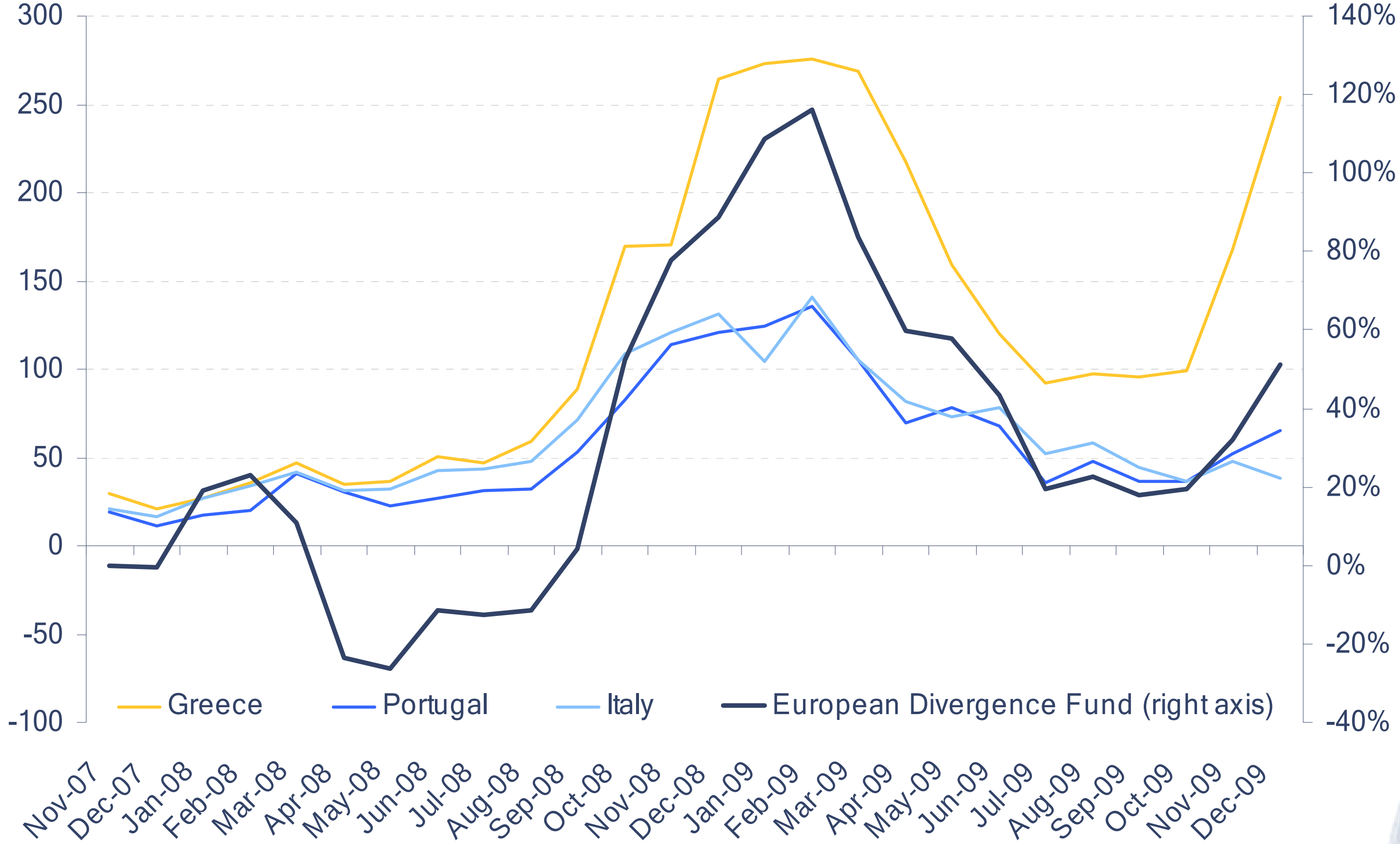
Global macro: European divergence trade

Short positions in PIGS provide hedge on portfolio level



Source: Bloomberg

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Important risk considerations

- **Performance risk.** No assurance can be given that Theta Deep Value Fund will achieve its investment objectives, and investment results may vary substantially over time and from period to period. Past performance is no indication for future results.
- **Valuation risk.** The underlying hedge funds of Theta Deep Value Fund may engage in privately placed, illiquid investments for which no proper valuation may exist until a transaction is executed. Therefore, monthly valuations are for information purposes only.
- **Concentration risk.** Theta Deep Value Fund may have significant exposure to a limited number of hedge funds who, in turn, may have a significant exposure to a limited number of positions. As a consequence, the value of the fund may display a high sensitivity to adverse developments in any particular hedge fund or in any particular position.
- **Liquidity risk.** The underlying hedge funds of Theta Deep Value Fund may invest in securities with very limited liquidity. Redemptions are not allowed during the first two years and after that, quarterly redemptions are subject to a gate.

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