

Q1 2010

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Table 1 Performance Theta Funds

	Q1 2010	2010
Theta Medium Volatility	1.5%	1.5%
Theta Deep Value	5.4%	5.4%
Theta Legends Fund	2.9%	2.9%
HFR Fund of Funds Index	1.6%	1.6%

Business Update

Successful launch of the Theta Legends Fund

On February 1st, Theta Capital launched the Theta Legends Fund with approximately EUR 60 million in capital from a group of seed investors. Additional subscriptions and performance has brought the AUM of the fund to over EUR 80mm per May 1st.

The Theta Legends fund invests in a limited number of legendary hedge fund managers active in a variety of strategies. We are pleased with the amount of interest and the initial performance of the fund which we will discuss in more detail below.

Theta Conference with John Paulson and Stephen Jen

Theta organised the 3rd annual investor conference on April 23rd with two distinguished speakers.

Mr. John Paulson is President and Portfolio Manager of Paulson & Co. Although Mr. Paulson only in recent years became widely known after correctly foreseeing the crash in the US housing market and the subsequent recovery in credit and financial stocks, he has been successfully leading his firm since 1994, and we have been investing with the group for many years.

Mr. Stephen Li Jen is Managing Director of Macroeconomics and Currencies at BlueGold Capital Management LLP. Before joining BlueGold in 2000 Mr. Jen was a Managing Director at Morgan Stanley and Global Head of Currency Research.

Based on the initial feedback we have received as well as our own experience of the day, we believe the conference was a success. Over 120 attendees were witness of our speakers' investment outlook and their valuable take on the particular challenges that face investors today.

A more detailed note of the highlights of the conference will be available on our website in a couple of days.

Sovereign Opportunity

Readers of our Theta Deep Value Fund quarterly letters have known of our investment in protective strategies in European sovereign debt for some time.

We initiated this investment in February 2008. At that time differentiation between borrowing costs of the various Euro countries was virtually non-existent. Over two years later, we are now in the midst of a European government debt crisis. Being early in identifying this opportunity has been key to the success of the European Divergence Fund. Over the last 12 months we have identified a number of strategies that share the common theme of positioning to profit from the surge in global sovereign debt. We expect this sovereign debt bubble to have a different outcome for different countries (default, inflation, currency devaluation) and we believe it makes sense to position early for these outcomes for a small part of one's investment portfolio.

To that end we are looking to add exposure to a number of these strategies to our Theta Deep Value Fund. Individual allocations will be relatively small as we believe each of the strategies offers a highly asymmetric risk-return profile, characterized by a low probability on a high return, resembling a portfolio of some long positions in out of the money options. The short subprime mortgage theme and the short European government debt theme are examples of such ideas which have already contributed significantly to our returns and we see these new strategies as logical subsequent trades to the same theme of a moving debt bubble. It is important to note that these investment themes were not selected by Theta, but were presented to us by hedge fund managers that we respect and with whom we have good experience in terms of value investing or contrarian investment themes.

We have received interest from some clients in investing specifically in this type of opportunity. This is clearly not for everyone as any portfolio will likely run with a negative carry and timing is uncertain, but we invite investors with a sufficiently long time horizon to contact us for a more in-depth discussion on this opportunity.

Theta Multistar Medium Volatility

Theta Multistar Medium Volatility ended up 1.53% in the first quarter. Investors started the year on a cautious note and we were happy to mitigate the impact of the initial downward volatility on the portfolio. The Medium Volatility Fund lost 53bps in January while the MSCI World was down close to 4%. What pleased us more though was the March performance of the fund. The Medium Volatility Fund took a large part of the upside in markets and outperformed the fund of hedge funds universe by a decent margin. This is the result of changes we implemented over the last 6 months after concluding that we were positioned overly cautious. We view the March return as a sign that the changes we implemented since then are starting to bear fruit.

We foresee an attractive environment for the funds in our Medium Volatility Fund as dispersion has increased between geographies, asset classes and individual securities. The suppressed volatility in the market does not represent a lack of opportunities, but rather decreasing correlations between markets. This actually creates an attractive playing field for fundamental

bottom up investors as long short opportunities are abound. At the same time the shift to a new balance between the developed and emerging world and the exit paths from the ballooning sovereign deficits worldwide make for strong return potential for global macro and commodity funds, another important component of the portfolio.

We have made three additions to the portfolio in Q1. Two of these additions were in the event driven bucket where we see good return potential in investing in distressed securities for the coming years on the back of the wave of defaults that has hit markets. **Anchorage Capital Partners** is a pure credit fund that has a strong record in trading high yield credit and in actual restructurings while also being active on the short side. Anchorage has been one of the few distressed credit investors that has actually grown during the credit crisis and is therefore well positioned for its aftermath. The **Owl Creek Overseas Fund** has a broader mandate of investing in event driven names. Next to distressed credit this fund also invests in equity special situations. The third addition was the **SCP Sakonnet Fund**, a long short equity fund which served as a replacement to **John Horseman's Global Fund** which we redeemed per the end of December as the manager decided to step back. All three new funds did well in the first quarter showing returns of respectively 5.5%, 9.5% and 3.5%.

During the quarter we redeemed from the **Roy G. Niederhoffer Diversified Fund**. This fund served a very specific objective in the portfolio, that is to offer protection in a difficult environment for hedge funds. In 2008 this fund was one of our strongest performers, but with systemic risk being reduced we believe there are better investment alternatives. Given the flexibility of our other managers and the sizable allocation to Global Macro, the portfolio has sufficient means to adapt to negative shocks that no doubt will be part of the future investment environment as well.

The Medium Volatility Fund had 23 positive contributors for the quarter and 9 detractors. The top performer for the first quarter was the **CQS Directional Opportunities Fund**. The fund continued its strong 2009 performance by returning over 10% in the first quarter, contributing 40bps to the portfolio's performance. Half of the performance was realized in March and was broadly carried over its diverse range of credit and equity strategies. The above mentioned **Owl Creek Overseas Fund** was the second biggest contributor, adding 31bps of performance. The **Lansdowne UK Equity Fund** returned over 7%. We consider the Lansdowne UK Equity Fund as one of the best long short equity funds available scoring high on fundamental analysis, macro analysis as well as portfolio construction and risk management.

The biggest negative contributor was the **Clairvoyance Asia Fund**. This is a Taiwan based long short equity fund focused on the technology sector. The fund was positioned long Asian technology companies while holding short positions in US tech. This positioning cost the fund around 7% in the first two months of the year, which was recouped half in March and has been recouped fully in April month-to-date. For the Medium Volatility Fund the result of these losses was a negative contribution of 14 basis points for the first quarter.

Theta Deep Value

The Theta Deep Value fund gained 5.40% during the first quarter of 2010. Notably the fund reported positive returns in each of the first three months of the year. As one would expect, in January the returns were driven by our protective strategy in European sovereign debt, while especially the March return was driven by long biased equity and credit strategies.

There was little turnover in the Deep Value Portfolio during the first quarter. The **European Divergence Fund**, discussed in some more detail below, returned around 70% of money to investors as the fund is approaching its final term and January and February provided a good opportunity to cover part of their protection. The **Autonomy Class C** is returning a large part of its money to investors as its initial lock up ended and the manager does not see sufficient opportunities to keep investing in longer term emerging market situations while offering quarterly liquidity to investors. The fund contributed over 1.6% to the Deep Value Fund since our investment in July 2007, a good result we think given the harsh environment in 2008. We are looking to redeploy these proceeds in some of the sovereign opportunities mentioned at the start of the letter as well as in an additional distressed securities fund.

In terms of attributions for the month, let's start with the **European Divergence Fund**. Interestingly the fund ended the quarter flat performance-wise, however given that it paid back almost 70% of money to investors after the widening in January and February, the contribution to the Theta Deep Value Fund was over 50bps. This shows the positive impact of the manager's decision to aggressively reduce exposure, especially in Greece, when it hit record wide levels in those first two months. At the time of this writing it has become clear that those levels got crushed during April. However, we still feel it was prudent that the manager took off part of the risk during the ride. We will likely reinvest part of those proceeds which were received in March into the **European Divergence Fund II** per the first of May. That fund still has a longer investment horizon and we do believe this still is an interesting proposition. The focus of the fund will be on countries which the manager believes have troubled government finances, but have not yet received much attention from investors, such as Belgium and France.

The biggest contributor in Q1 was the **Paulson Recovery Fund**. The fund's main goal is to achieve outsized returns when the anticipated recovery materializes. This certainly showed in March with the fund being up over 13%. Whereas the fund started 2009 with a net short positioning, this gradually changed during that year and as a result the fund went into 2010 with a near 100% net long position. The fund's primary focus is on financial stocks as Paulson believes some of the names in this sector will show the strongest recovery, after being the worst hit sector during the credit crisis. As one of the few, Paulson came out of the credit crisis stronger, and was therefore ideally positioned to participate in some of the most attractive deals available. One deal that stands out was buying the failed Indymac bank, now known as OneWest Bank, out of FDIC receivership. This investment has already contributed significantly to the fund's performance and we expect this could have much further to go. Another significant contributor was Bill Ackman's

Pershing Square. Participants in Theta's 2009 investor conference will remember Bill's pronounced views on General Growth Properties in which he had built up a sizable position. This served him very well in 2009, and this continued in Q1 2010 with the position being the main contributor to the 7% performance that the fund posted.

On the negative side **Red Kite** suffered further losses after disappointing results in 2009. We have decided to redeem the investment in the **Red Kite Metals Fund** and the **Red Kite Prospect Fund** per April 1st as we lost our comfort that the manager would profitably trade the metals market going forward while limiting large drawdowns.

Theta Legends Fund

The Theta Legends Fund started off in February being approximately 90% invested. The remaining 10% of cash was invested on April 1st, as the **Bay Resources Fund** only accommodates quarterly subscriptions. From here we anticipate little turnover in the portfolio, besides the rebalancing of the holdings.

February ended flat for the Theta Legends Fund with no significant performance outliers. We were pleased though to see that our selected CTA, **Transtrend OmniTrend**, posted a positive return after a difficult patch of recent performance. Transtrend's 1.8% return in February was followed by a notable 8.7% return in March, and so far the timing of this investment couldn't have been better. Some of the main trends that were profitable for the fund in March emerged in February and continued their growth from there. The manager sees this as a return to the normal search for new equilibriums, something that had not been so clear in 2009. We view the consistency in applying the trend following models as one of the key strengths of a CTA. The result in March, recouping a large part of the 2009 losses, is a result of this. The long term track record of the fund also speaks for itself to this point.

In March also all other funds in the portfolio did well and the Theta Legends Fund was up 2.9%. Again, this was still without Bay Resources which had a strong month in March as well (5.4%). Besides the positive contribution from long short equity, the **Moore Global Investment Fund** returned close to 3%, **Paulson's Advantage Plus Fund** was up 2.6% and the **King Street Global Fund** was up 1.5%.

Performance Summary

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

	Theta Multistar Medium Volatility Fund	Theta Deep Value Fund	Theta Legends Fund	HFR Fund of Funds Index	MSCI World Index
January 2010	-0.53%	0.80%	-	-0.35%	-3.77%
February 2010	-0.32%	0.80%	0.03%	0.22%	1.77%
March 2010	2.40%	3.77%	2.91%	1.71%	6.10%
Year-to-date 2010	1.53%	5.40%	2.94%	1.58%	3.91%
Annual return					
2009	5.09%	16.06%	-	12.10%	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	8.06%	-	-	2.59%	-23.89%
Annualized statistics †					
Return	4.08%	9.97%	NA	4.30%	0.05%
Standard deviation	6.82%	9.21%	NA	5.44%	15.46%
Sharpe ratio	0.20	0.79	NA	0.29	-0.17
Correlation to MSCI World	0.48	0.39	NA	0.68	1.00
Beta to MSCI World	0.52	0.51	NA	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.

* Inception date was July 1st, 2006

Risk Reports

Theta Multistar Medium Volatility

Strategy allocation and performance attribution

Strategy	# of Funds	Allocation (% NAV)	Return contribution	
			Q1 2010	YTD 2010
Equity Hedge		24%	0.07%	0.07%
Equity Market Neutral	0	0.0%	0.00%	0.00%
Fundamental Growth	2	8.1%	-0.11%	-0.11%
Fundamental Value	6	11.5%	0.28%	0.28%
Technology/Healthcare	1	4.5%	-0.10%	-0.10%
Event-Driven		26%	0.48%	0.48%
Activist	1	3.4%	-0.02%	-0.02%
Distressed/Restructuring	6	13.5%	0.17%	0.17%
Special Situations	2	8.6%	0.28%	0.28%
Macro		34%	0.31%	0.31%
Commodity - Discretionary	2	6.0%	0.02%	0.02%
Discretionary Thematic	9	25.9%	0.28%	0.28%
Systematic Diversified	1	2.0%	0.02%	0.02%
Relative Value		18%	0.67%	0.67%
Fixed Income - Asset Backed	2	8.1%	0.18%	0.18%
Convertible Arbitrage	1	2.4%	0.03%	0.03%
Fixed Income - Corporate	1	4.0%	0.31%	0.31%
Multi-Strategy	1	3.8%	0.15%	0.15%
Total			1.53%	1.53%

Theta Deep Value

Strategy allocation and performance attribution

Strategy	# of Funds	Allocation (% NAV)	Return contribution	
			Q1 2010	YTD 2010
Equity Hedge		22%	1.37%	1.37%
Energy/ Basic Materials	1	9.4%	-0.10%	-0.10%
Fundamental Growth	2	12.3%	1.47%	1.47%
Fundamental Value	0	0.0%	0.00%	0.00%
Technology/Healthcare	0	0.0%	0.00%	0.00%
Event-Driven		37%	3.00%	3.00%
Activist	1	8.6%	0.64%	0.64%
Distressed/Restructuring	3	18.7%	0.61%	0.61%
Special Situations	1	9.6%	1.76%	1.76%
Macro		24%	-0.05%	-0.05%
Commodity - Discretionary	2	10.6%	-0.43%	-0.43%
Discretionary Thematic	2	13.6%	0.38%	0.38%
Systematic Diversified	0	0.0%	0.00%	0.00%
Relative Value		19%	1.08%	1.08%
Fixed Income - Asset Backed	1	6.3%	0.27%	0.27%
Convertible Arbitrage	0	0.0%	0.00%	0.00%
Fixed Income - Corporate	2	8.1%	0.85%	0.85%
Multi-Strategy	0	4.3%	-0.04%	-0.04%
Total			5.40%	5.40%

Theta Legends Fund

Strategy allocation and performance attribution

Strategy	# of Funds	Allocation (% NAV)	Return contribution	
			Q1 2010	YTD 2010
Equity Hedge		22.2%	0.67%	0.67%
Equity Market Neutral	0	0.0%	0.00%	0.00%
Fundamental Growth	0	0.0%	0.00%	0.00%
Fundamental Value	2	22.2%	0.67%	0.67%
Technology/Healthcare	0	0.0%	0.00%	0.00%
Event-Driven		16.7%	0.31%	0.31%
Activist	0	0.0%	0.00%	0.00%
Distressed/Restructuring	0	0.0%	0.00%	0.00%
Special Situations	1	16.7%	0.31%	0.31%
Macro		33.3%	1.70%	1.70%
Commodity - Discretionary	0	0.0%	0.00%	0.00%
Discretionary Thematic	1	16.7%	0.29%	0.29%
Systematic Diversified	1	16.7%	1.41%	1.41%
Relative Value		16.7%	0.26%	0.26%
Fixed Income - Asset Backed	0	0.0%	0.00%	0.00%
Convertible Arbitrage	0	0.0%	0.00%	0.00%
Fixed Income - Corporate	1	16.7%	0.26%	0.26%
Multi-Strategy	0	0.0%	0.00%	0.00%
Total			2.94%	2.94%