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Table 1 Performance Theta Funds

	Q2 2010	2010
Theta Medium Volatility	-4.65%	-3.19%
Theta Deep Value	-6.53%	-1.45%
Theta Legends Fund	-6.76%	-4.04%
HFR Fund of Funds Index	-2.39%	-0.96%
MSCI World Index	-12.35%	-8.76%

## Business Update

We made good progress on the planned listing on NYSE Euronext Amsterdam for the Theta Legends XL Fund, which is now scheduled for September 1<sup>st</sup> 2010. Theta Legends XL Fund offers, next to a monthly redemption possibility at NAV, a daily trading facility through a market maker. If you would like to receive more information about Theta Legends XL Fund, please contact us.

During the quarter members of our investment team had meetings with around 75 hedge funds in New York, Connecticut, Atlanta, Florida, Shanghai, Hong Kong, Taiwan and London. About half of these visits were monitoring visits of funds we are already invested with, with the other half comprising of first time visits and later stage due diligence visits of funds we are approving for potential future investment. During these visits we continue to find that the balance of power between hedge funds and hedge funds investors has shifted in our favour. Better access to the teams, better transparency on the portfolio, the investment process and the internal controls and much better access to funds that were previously hard closed, are all indicators of this.

## General Markets Update

Markets proved vulnerable again as the European sovereign debt crisis dominated headlines this quarter. On May 10<sup>th</sup>, the EU was forced to respond with a EUR 750 billion bailout package. After an initial positive reaction, markets quickly became highly volatile. The VIX index, widely used as a gauge for risk aversion, returned to levels last seen at the beginning of 2009. At the same time concerns about a “double dip” recession in the U.S. escalated, as a result of economic data including disappointing job growth and weaker housing fundamentals.

These concerns weighed heavily on equity markets in the second quarter. The S&P 500 index closed down 11.4% and most European and Asian countries’ markets also experienced double digit losses. There were more modest losses in credit markets in May and June and trading volumes and liquidity fell.

All this contrasts sharply to the positive developments on the micro level, with most companies being in a relatively healthy condition with decent cash levels and modest valuations in a historical context. The results of the European

bank stress tests and the second quarter earnings reports will shape further visibility of the true condition at the corporate level.

The environment proved challenging for hedge funds in general and all three of our funds reported losses for the quarter, albeit to a much lesser extent than equity markets. Their optimism on the company earnings left several of our managers exposed to the sharp corrections. The high level of volatility at the same time made it expensive for managers to protect against the sharp moves, and cutting exposure was the only way for those who chose to avoid further potential losses. Other managers chose to stick with their conviction, accepting what they view as short term volatility in favor of strong returns in the medium term. A fitting description given by one of our managers is that the micro has been 'hijacked' by the macro. Sometimes, of course, macro developments are in fact tradable because its direction is clear and sustainable. This was the case at the end of 2007 and at the beginning of 2009. But now that is proving very difficult. In the current environment, investors will have to accept short-term volatility to maintain strong medium-term upside potential.

One thing we would note is that it has been very difficult over the second quarter to maintain one's conviction given frequent reversals of market direction. The fact that some long standing managers that we hold in high esteem have maintained conviction without much hesitation leaves us positive on the medium term outlook.

## Theta Multistar Medium Volatility

Theta Multistar Medium Volatility lost 4.65% in the second quarter.

We have made modest adjustments to the portfolio in the second quarter. As mentioned in our Q1 Quarterly Letter, we had by then mostly finalized the move away from the conservative stance that we had adopted after Q4 2008. There has been some turnover though. We redeemed from the **Boyer Allan Greater China Fund**, as we had questions about an important departure from the team. At the same time we added **Bay Resource Partners**, a long standing long short equity fund managed from Atlanta, to keep our long short equity exposure in line with our targets. In the past we have been invested with Bay Resource Partners for several years. Furthermore we redeemed from three of our global macro managers as part of a shift to somewhat reduce our over-allocation to the strategy. One fund was redeemed because of questions about its operations and we chose to redeem immediately. Finally, we redeemed from the **Nevsky Fund** as the manager had decided to stop managing the fund from 2011 onwards. We certainly regret their decision as this emerging markets fund has consistently been among our favorite long-short equity funds. The team has posted an annualized return of 23.40% since its inception in 2000 while avoiding big drawdowns in the meantime.

Looking into the performance for the quarter, we suffered mainly from losses in our long short equity, event driven and commodities buckets, while global macro and relative value strategies ended roughly flat. In the event driven

category, **Paulson Advantage** (-10%) experienced its most difficult quarter since its inception. John Paulson had reduced shorts and increased longs at the end of the first quarter as he became more bullish on the macro environment. This call was based on his research pointing to a reduced probability of a double dip recession in the US and as he believed the European sovereign and banking problems were manageable. John Paulson feels he has to accept this volatility for achieving strong returns on a somewhat longer horizon. An important data-point will be the second quarter earnings, which he expects will be better than expected and should direct markets higher. Another significant holding in the same strategy, the **Owl Creek Overseas Fund**, suffered from comparable performance. Different from Paulson though, this manager decided to largely reduce directional risk.

Within our long short equity allocations, losses were widespread and relatively steep for the quarter on the back of the double digit losses in world equity markets. The **Lansdowne UK Equity Fund** lost 11.4% in the second quarter. While being frustrated by the poor performance, the manager sees the volatility as a market event that has not materially shifted the attractiveness of the portfolio's investments. The manager believes that the potential upside in their names (mostly in defensive, cyclical and financial sectors) on a longer-term basis remains large, and as such they have not made major shifts to their portfolio in response to shorter-term movements, even of the magnitude seen last quarter.

Indeed, quite some managers we speak to take the view that the overall investing environment is well-set for equities longer-term. Valuations are historically low relative to other asset-classes at a point where the companies themselves are massively outperforming the global economy. Also, investors are starting from a low exposure level after a protracted period of low returns and equities' attractions of liquidity, currency-neutrality and inflation-protection ought to play well to asset-allocators' immediate priorities. The unattractiveness of risk-free assets as a longer term alternative adds to this.

In 'global macro' we saw mixed performance. The environment with a lack of trends, ultralow interest rates and unpredictable government actions creates a difficult backdrop for the strategy. On the other hand the possibility of big outcomes either way- will there be inflation or deflation?- makes these allocations attractive as they are set up to profit from such large moves. The **Brevan Howard Fund** (+3%) had a decent second quarter, making back the losses suffered in the first three months of the year. The fund profited most from the downward movement of the Euro. The **Autonomy Global Macro Fund** (+5%) was one of the largest gainers in the second quarter. The fund benefited from receiving relatively high interest rates in emerging markets while being bearishly positioned in developed markets. We have always rated Autonomy's manager highly on his macro calls (see for example the Iceland Opportunity Fund discussed in the Theta Deep Value section) and we are glad to see that Autonomy's business and operational setup has improved considerably in the last two years. This was confirmed during a due diligence visit by our head of operations in early July.

In 'relative value' the portfolio saw decent performance in asset backed securities, with the **CQS ABS Fund** (+5.81%) adding to their year-to-date gains through both their long and short book. It was the strongest contributor to the portfolio for the quarter. RMBS was one of the few segments that held up well during the quarter. Corporate credit markets were more difficult, and **Arrowgrass International** (-3.31%) quickly reduced risk in May after it failed to see its bullish stance confirmed.

## Theta Deep Value

The Theta Deep Value Fund gave back year-to-date gains during the months of May and June, but is still outperforming global equity markets which are down more than 8% over the same period.

We kept the portfolio largely unchanged in the second quarter. The only additions were two small allocations in our 'sovereign opportunity bucket', and the reinvestment of some of the monies paid out by the **European Divergence Fund** in the **European Divergence II Fund**. We will discuss these positions in more detail below.

Our global macro and asset backed securities allocations posted positive results, all other strategies were down. We suffered especially in the equity focused funds, where the best performer was Bill Ackman's **Pershing Square**, losing 3.8% in the quarter. The steepest losses were suffered in our energy/basic materials allocation where **Sector Speculare** experienced a drawdown of around 20% due to severe weakness in some of the biggest positions in the fund.

In aggregate, all the Theta Deep Value losses for the quarter came from the 8 funds in the long short equity and event driven strategies. Most of these managers remain optimistic on the outlook for the general market direction. Second quarter earnings will be an important data-point to prove them right. If these disappoint, or the overall macro environment will worsen, we expect our managers to have sufficient flexibility to reduce long exposure and to make money on the short side.

Very strong performance was realized by our global macro allocation that we dubbed the 'sovereign opportunity bucket' and we will take this opportunity to spend some more time describing the funds we are currently invested with. Our investors are already familiar with the **European Divergence Fund**, which since late 2007 has been positioned to profit from a credit spread widening of what they determined to be weaker European sovereign credits. This fund experienced a very strong quarter (+70%) on the back of the renewed sovereign credit worries that started to mount towards the end of April. The manager aggressively reduced exposure during the widening to realize the profits. It added over 1% to Theta Deep Value's performance. We have rolled part of the proceeds into the **European Divergence II Fund**, which has longer maturity contracts and more exposure to names that as of yet have only seen modest widening. However, the position will be substantially smaller than it used to be.

In June we have subscribed to the **China Opportunity Fund**, managed by the same team as the European Divergence funds. Just as the European spread trade was quite contrarian back in 2007/early 2008, their thesis that the Chinese currency is *overvalued* probably was the most contrarian market view, until recently. The basis for their thesis is that China is experiencing an unsustainable boom in its real estate and infrastructure sectors fuelled by excessive credit growth. This leaves China vulnerable to a violent adjustment process. The manager believes that about 1/3<sup>rd</sup> of China's \$2.7 trillion in FX reserves reflects speculative capital inflows and this could flee the country very rapidly, putting the Chinese currency under serious pressure. In implementing the trade, the manager has made use of the low implied volatility in currency options, which is the result of the peg between the Yuan and the USD. While their anticipated direction for CNY-USD in the medium term is clearly downwards, this cheap volatility should make for an interesting performance even when there is a modest appreciation. This is actually what happened in June, leaving the fund *up* over 20% for the month. It is a small allocation for the Deep Value fund given its high risk nature and large negative carry, but we expect it would move the needle significantly if their thesis proves correct.

Finally, we describe our May 1<sup>st</sup> investment in the **Autonomy Iceland Opportunity Fund** managed by Robert Gibbins of Autonomy Capital. Robert has been successful in identifying macro trades in an early stage. The Iceland opportunity was so obvious to him that he decided to structure a separate fund around it. Having known Robert for several years, and after conducting proper due diligence, we decided that this fund indeed offered a highly attractive risk-return profile and we were part of a small group of investors that per May 1<sup>st</sup> 2010 co-invested with Robert.

Iceland entered a severe financial crisis following the collapse of three major banks. The central bank of Iceland has introduced currency controls, which led to a significant divergence between the onshore and offshore ISK rates. After initially visiting Iceland to research real estate, Robert came to the conclusion that, going forward, the Icelandic currency could well be received as a safe haven versus the Euro as its early restructuring and strong quality of both its economy and its institutions would protect it from many of the threats still facing other European countries. He expects that the IceSave dispute will be solved in the coming months and that policy makers will start to remove the capital controls before the end of 2010. In the first month of the fund's existence, the currency did not really move, but in June there was a sharp appreciation in the offshore ISK, leaving the fund up over 15%. We viewed this as an attractive 12-18 months trade that is not overly depending on overall market direction and we are pleased that so far it is running well beyond our expectations.

## Theta Legends Fund

The Theta Legends Fund had a rough quarter with all 7 constituent funds ending in the red. Over a somewhat longer horizon we do not expect the

correlation between the funds be so high, but given the portfolio concentration this type of volatility is something we have to accept in what were quite extreme market movements during Q2.

We made no changes to the Theta Legends Fund's portfolio. With the addition of **Bay Resource Partners** per April 1<sup>st</sup>, the fund has been fully invested for the quarter.

We have already pointed to the steep losses of the **Paulson Advantage Fund** in the commentary on our Medium Volatility Fund. We do expect this fund to make back its losses rather quickly if sentiment is improving as the portfolio has maintained its net long bias. **Moore Global Investments** posted its worst month in May in over 20 years of history. We view this as a clear indicator of how difficult the combination of market volatility and unpredictable regulatory actions were for active fund managers. Moore reacted by slashing risk by 75%. This is very typical for Moore, and slashing risk when the markets prove them wrong has been the basis for their relatively short drawdowns with quick recoveries they have demonstrated consistently throughout their 20-year investment history. **Our credit long/short fund** lost 2.2% in the second quarter. Although not a big absolute number, losses of this magnitude are rare at this fund which operates very conservatively. About a third of the loss came from their largest distressed debt position that traded down steeply in May. Another third of the loss stemmed from their financials book in which they hold some hybrid instruments with attractive yields. The structured credit book counted for most of the balance of the loss as corporate credit sold off. The fund has cut some of its long exposure and increased the shorts somewhat. It ended the quarter with over 50% cash, which is not an unusual situation for the fund. Still, the fund has generated a return of over 13% per annum for over 15 years. While performance was disappointing they have seen some positive developments in the last part of the quarter, extending into July, when capital markets for financials and sovereigns opened up.

On the long/short equity side, **Bay Resource Partners** took the biggest hit in the second quarter. This is not a surprise to us as this is the most volatile manager in this bucket. Also, the manager does not change exposures quickly. Over longer periods of time though, the fund has demonstrated the willingness to be net short if they have a bearish view on the market. The fund took a particular hit through their exposure to deep water gulf as a result of the BP Gulf oil spill. The fund has been buying carefully over this period and has retained its overall positioning as the manager believes "the quality of its portfolio on the stock level is as high as it has been in a good while, possibly ever."

## Performance Summary

The following table shows the net returns of the Theta funds for the period ending 30 June 2010.

	Theta Multistar Medium Volatility Fund	Theta Deep Value Fund	Theta Legends Fund	HFR Fund of Funds Index	MSCI World Index
April 2010	1.12%	1.78%	1.52%	0.92%	0.07%
May 2010	-3.67%	-5.03%	-5.67%	-2.61%	-8.41%
June 2010	-2.11%	-3.30%	-2.64%	-0.69%	-4.37%
Year-to-date 2010	-3.19%	-1.45%	-4.04%	-0.96%	-8.76%
<b>Annual return</b>					
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%
<b>Annualized statistics †</b>					
Return	3.37%	7.50%	NA	3.86%	-1.48%
Standard deviation	6.92%	9.61%	NA	5.47%	15.59%
Sharpe ratio	0.10	0.49	NA	0.22	-0.26
Correlation to MSCI World	0.51	0.44	NA	0.69	1.00
Beta to MSCI World	0.54	0.55	NA	0.54	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 1<sup>st</sup>, 2006

## Performance Attribution Reports

### Theta Multistar Medium Volatility

#### Strategy allocation and performance attribution

Strategy	# of Funds	Allocation (% NAV)	Return contribution	
			Q2 2010	YTD 2010
<b>Equity Hedge</b>		<b>21.3%</b>	<b>-2.58%</b>	<b>-2.51%</b>
Equity Market Neutral	0	0.0%	0.00%	0.00%
Fundamental Growth	1	1.2%	-0.11%	-0.22%
Fundamental Value	6	15.8%	-2.16%	-1.88%
Technology/Healthcare	1	4.2%	-0.29%	-0.39%
<b>Event-Driven</b>		<b>28.7%</b>	<b>-1.38%</b>	<b>-0.90%</b>
Activist	1	4.2%	0.00%	-0.02%
Distressed/Restructuring	6	14.8%	0.02%	0.19%
Special Situations	2	9.7%	-1.40%	-1.12%
<b>Macro</b>		<b>26.3%</b>	<b>-0.66%</b>	<b>-0.35%</b>
Commodity - Discretionary	2	6.7%	-0.69%	-0.67%
Discretionary Thematic	5	19.7%	0.04%	0.32%
Systematic Diversified	0	0.0%	0.00%	0.02%
<b>Relative Value</b>		<b>23.7%</b>	<b>0.02%</b>	<b>0.69%</b>
Fixed Income - Asset Backed	2	11.8%	0.71%	0.89%
Convertible Arbitrage	1	3.0%	0.02%	0.05%
Fixed Income - Corporate	1	5.7%	-0.54%	-0.23%
Multi-Strategy	1	3.2%	-0.17%	-0.02%
<b>Total</b>			<b>-4.6%</b>	<b>-3.1%</b>

### Theta Deep Value

#### Strategy allocation and performance attribution

Strategy	# of Funds	Allocation (% NAV)	Return contribution	
			Q2 2010	YTD 2010
<b>Equity Hedge</b>		<b>23.27%</b>	<b>-3.81%</b>	<b>-2.87%</b>
Energy/ Basic Materials	1	9.01%	-2.15%	-2.58%
Fundamental Growth	2	14.26%	-1.67%	-0.26%
Fundamental Value	0	0.00%	0.00%	0.00%
Technology/Healthcare	0	0.00%	0.00%	0.00%
<b>Event-Driven</b>		<b>43.21%</b>	<b>-2.50%</b>	<b>0.49%</b>
Activist	1	11.04%	-0.42%	0.25%
Distressed/Restructuring	3	19.04%	-0.13%	0.55%
Special Situations	1	13.13%	-1.95%	-0.26%
<b>Macro</b>		<b>14.25%</b>	<b>-0.03%</b>	<b>-0.09%</b>
Commodity - Discretionary	1	7.95%	-0.77%	-1.38%
Discretionary Thematic	4	6.30%	0.74%	1.30%
Systematic Diversified	0	0.00%	0.00%	0.00%
<b>Relative Value</b>		<b>21.81%</b>	<b>-0.19%</b>	<b>1.03%</b>
Fixed Income - Asset Backed	1	8.27%	0.42%	0.79%
Convertible Arbitrage	0	0.00%	0.00%	0.00%
Fixed Income - Corporate	2	9.28%	-0.53%	0.36%
Multi-Strategy	0	4.26%	-0.07%	-0.13%
<b>Total</b>			<b>-6.53%</b>	<b>-1.45%</b>

## Theta Legends Fund

### Strategy allocation and performance attribution

Strategy	# of Funds	Allocation (% NAV)	Return contribution	
			Q2 2010	YTD 2010
<b>Equity Hedge</b>		<b>22.2%</b>	<b>-2.29%</b>	<b>-1.80%</b>
Equity Market Neutral	0	0.0%	0.00%	0.00%
Fundamental Growth	0	0.0%	0.00%	0.00%
Fundamental Value	3	33.3%	-2.29%	-1.80%
Technology/Healthcare	0	0.0%	0.00%	0.00%
<b>Event-Driven</b>		<b>16.7%</b>	<b>-1.83%</b>	<b>-1.60%</b>
Activist	0	0.0%	0.00%	0.00%
Distressed/Restructuring	0	0.0%	0.00%	0.00%
Special Situations	1	16.7%	-1.83%	-1.60%
<b>Macro</b>		<b>33.3%</b>	<b>-2.16%</b>	<b>-0.69%</b>
Commodity - Discretionary	0	0.0%	0.00%	0.00%
Discretionary Thematic	1	16.7%	-1.56%	-1.18%
Systematic Diversified	1	16.7%	-0.59%	0.49%
<b>Relative Value</b>		<b>16.7%</b>	<b>-0.48%</b>	<b>0.06%</b>
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%	-0.48%	0.06%
Multi-Strategy	0	0.0%	0.00%	0.00%
<b>Total</b>			<b>-6.76%</b>	<b>-4.04%</b>