



Theta Deep Value Fund

Thematic investing through the cycle

January 2011





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 - b. or who had an income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year. "

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Theta Deep Value Fund

The proposition

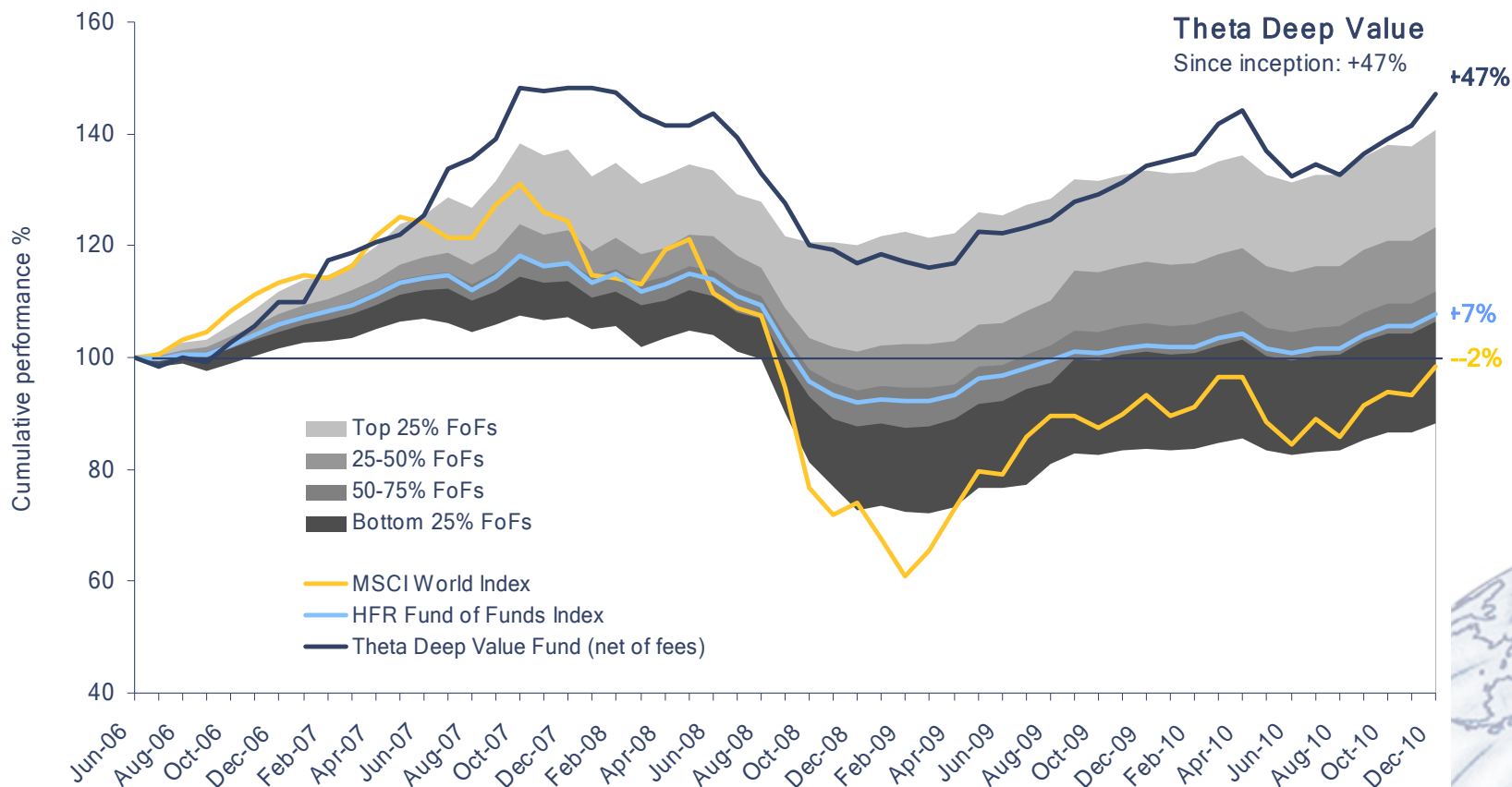
- Portfolio of 10-15 established hedge funds, diversified across regions, asset classes, markets and investment strategies
- Return target of 15%-20% per annum over a 2-3 year investment horizon
- Today's excessive focus on (weekly/monthly) liquidity means there are excellent opportunities for managers with a longer time horizon
- Capture significant upside potential associated with thematic (and sometimes contrarian) investing:
 - Short subprime mortgages and corporate credit in 2007
 - Emerging market growth in 2006-2007
 - European sovereign debt troubles in 2008-2010
 - Distressed cycle in 2009 - ?
- Theta Deep Value has the staying power to invest with seasoned independent thinkers on a medium-term horizon (2 to 3 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 Fund

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.**



Theta Deep Value Fund

Current investment themes & opportunities

1. Recovery financing - 20% allocation

- Companies looking to refinance, provide attractive opportunities for investors with access to capital and staying power
- This is a multi-year process driven by company-specific events; focus on equity capital
- Additional added value from activist approach to create catalysts

2. Distressed corporate debt - 25% allocation

- 90% of the bank loan markets will have to be refinanced in the next 5 years; \$2 trillion of announced loan disposition programs by US and European banks
- Defaults may come in waves with multiple peaks - higher for longer
- Capital structures have become more complex in recent years: inter-creditor disputes
- 10-15% yields on (dis)stressed bonds. Additional upside from debt restructurings and post-reorg equities

3. Asset-backed securities - 10% allocation

- Refinancing is not available like in investment grade and high yield corporate bonds in 2009
- Complexity of instruments has prevented ABS from joining the momentum rally in corporate credit
- Strong fundamental credit & structuring skills allow managers to cherry-pick individual bonds with recovery potential, intermediate cash flows and structural protection features
- 15-20% cash flow yields from coupons & amortization





Theta Deep Value Fund

Current investment themes & opportunities

4. Commodities / Energy - 15% allocation

- Constrained supply meets increasing demand: as emerging markets increase their energy consumption, producers will need to increase capital expenditures
- Opportunities for energy traders with good insight in supply/demand imbalances
- Commodities are often a 'leveraged bet' to the economic recovery

5. Emerging markets - 20% allocation

- EM growth will continue to outpace developed markets with much lower structural risks, but may be prone to regular disappointments (e.g. supply overhang in residential construction) → no beta-play
- EM hedge funds have outperformed long-only due to active exposure management
- EM's share in global equity market capitalization may double in next 15 years (GS estimates)
- Larger, deeper, less restricted capital markets → better liquidity/trading conditions for hedge funds

6. Sovereign opportunities - 10% allocation

- 'Bull market in politics'. With fiscal and monetary policy constrained, governments focus on 'micro-management of macro issues' (QE, tax policy, margin/reserve requirements)
- The presence of politics in markets creates enormous distortions and, by definition, opportunities
- We focus on contrarian investment themes with option-like payoff structures:
 - European credit divergence (since Feb 2008)
 - China FX
 - Iceland
 - Inflation (as Western governments ultimately inflate their way out of unsustainable debt positions)

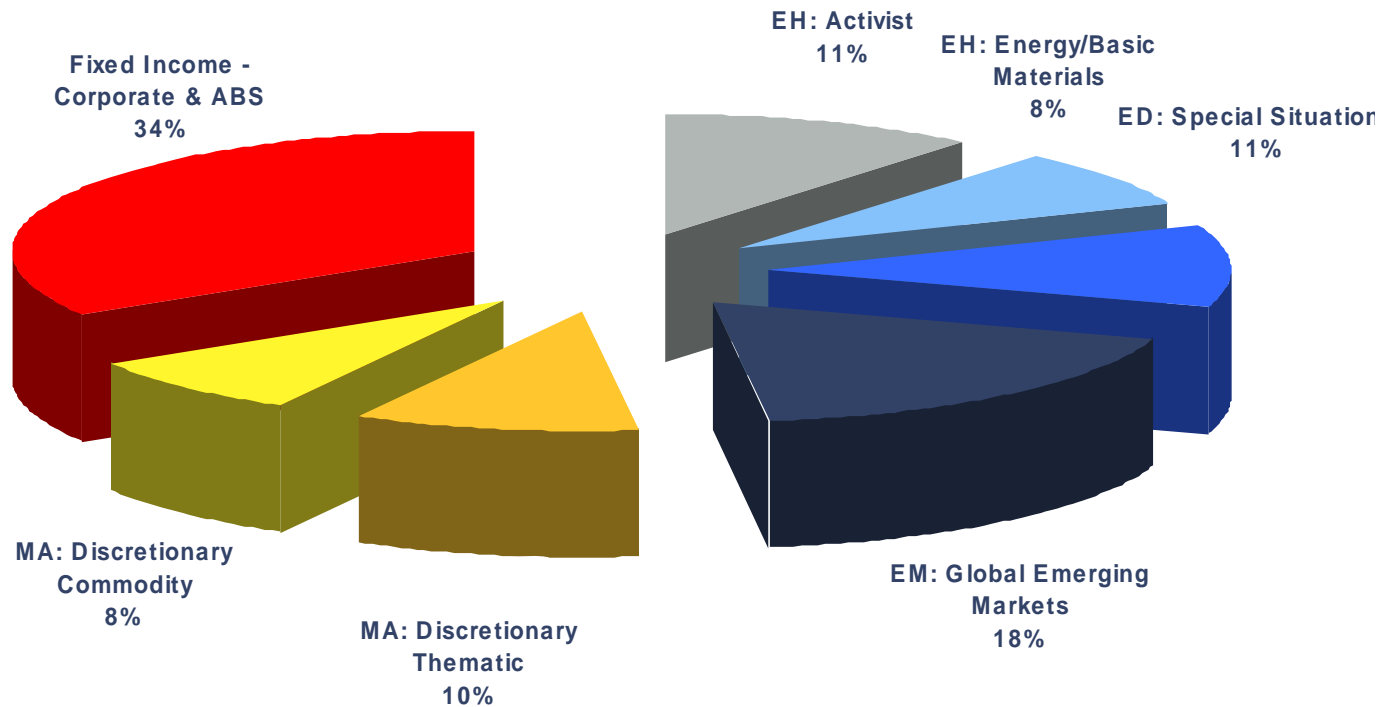




Strategy allocation

December 2010

Theta Deep Value Fund - Strategy Allocation



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





Appendix 1

Performance charts & investment terms





Theta Deep Value Fund

Superior risk-return profile, consistent alpha and low correlation

July 2006 - Dec 2010	Theta Deep Value	HFRI FoF Index	ML High Yield Index	ML Gov Bond Index	MSCI World
Return p.a.	10.3%	1.7%	8.5%	4.8%	1.9%
Volatility	9.3%	6.7%	13.2%	8.2%	20.2%
Sharpe Ratio	0.81	-0.15	0.45	0.44	-0.17
Alpha p.a.	7.6%	-0.9%	5.2%	3.3%	-
Correlation to MSCI World	0.44	0.75	0.80	-0.65	1.00
Correlation to Gov Bonds	-0.40	-0.64	-0.59	1.00	-0.65
Best 12-Month Return	44.6%	15.5%	58.3%	20.3%	55.2%
Worst 12-Month Return	-21.6%	-21.4%	-30.2%	-3.8%	-46.4%
Max. Drawdown	-21.8%	-22.2%	-31.8%	-7.8%	-53.7%
Up Mkt Capture Ratio	37%	28%	62%	-9%	100%
Down Mkt Capture Ratio	2%	31%	38%	-39%	100%

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

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

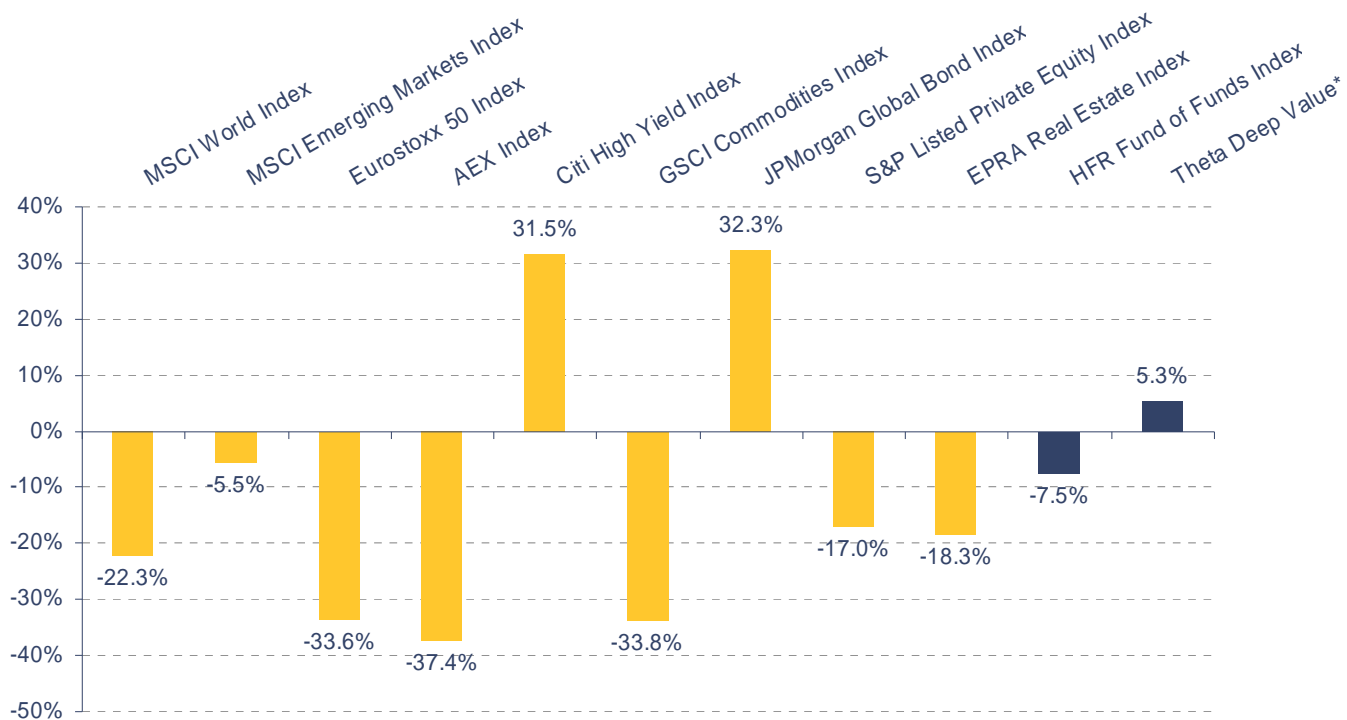
(3) Mkt Capture Ratio calculates the portion of the MSCI World performance that was captured by a manager or portfolio under up- or down markets. A Down Mkt Capture Ratio below zero means that the manager of portfolio has on average generated positive performance when the MSCI World had a negative performance



Theta Deep Value Fund

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

Asset Class Performance Jan 2008 - Dec 2010



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

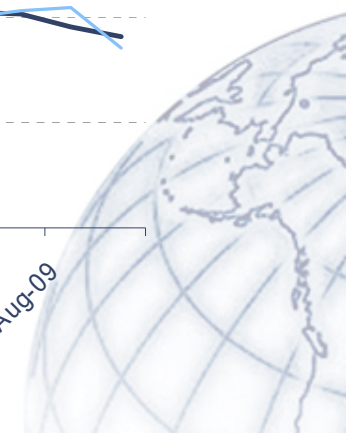
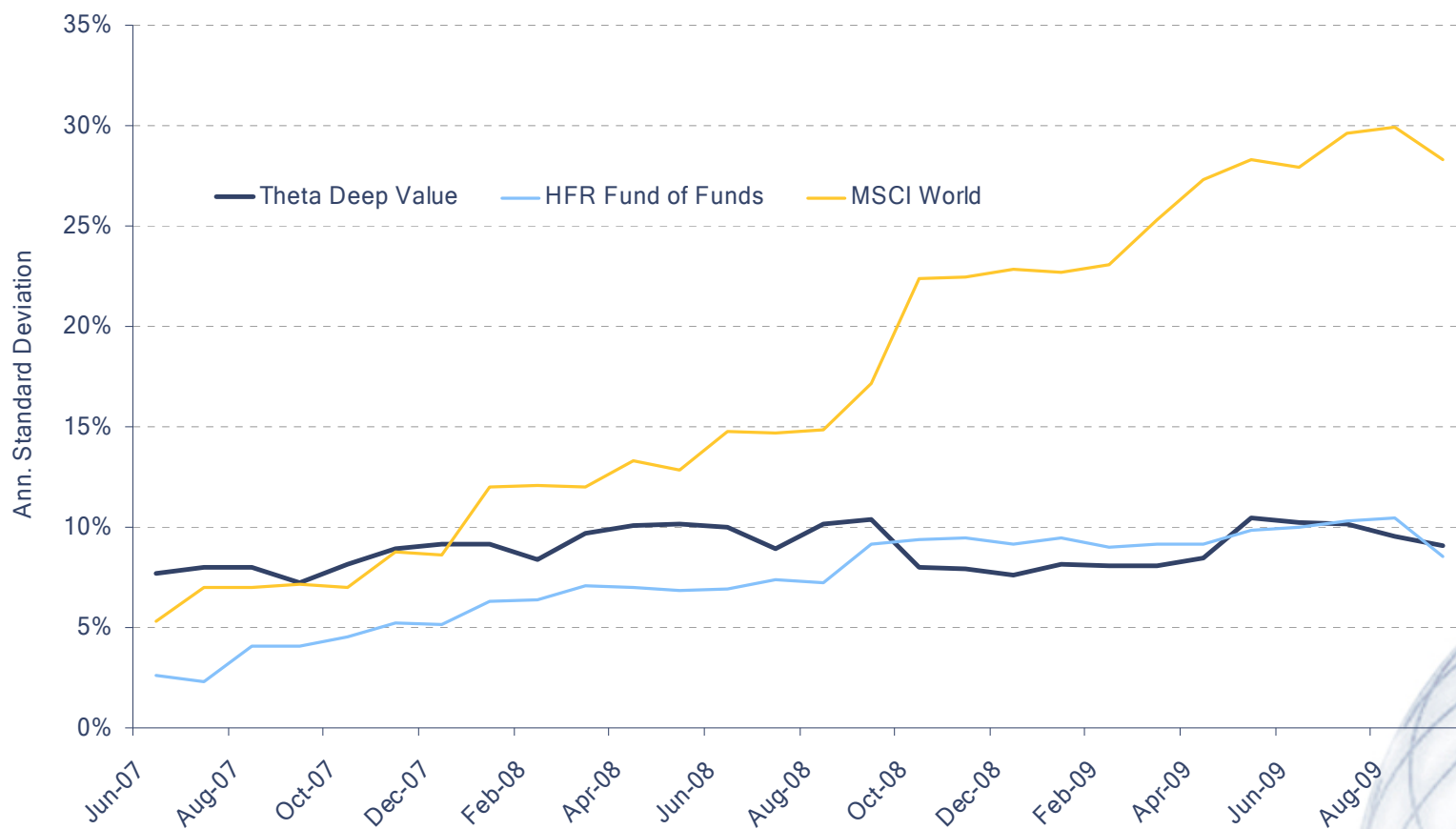
- ... while Theta Deep Value Fund has recovered all its losses





Theta Deep Value Fund

Stable risk profile throughout the financial crisis

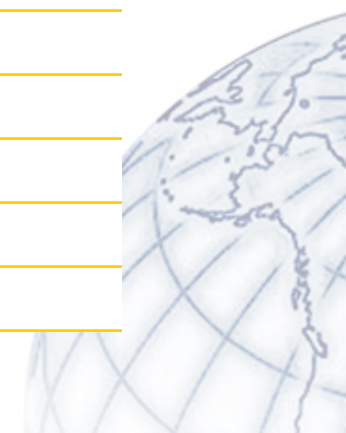




Theta Deep Value Fund

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	





Appendix 2

Current investment themes & opportunities

- Recovery financing
- Distressed corporate & ABS credit
- Emerging markets
- Commodities / Energy
- Sovereign opportunities

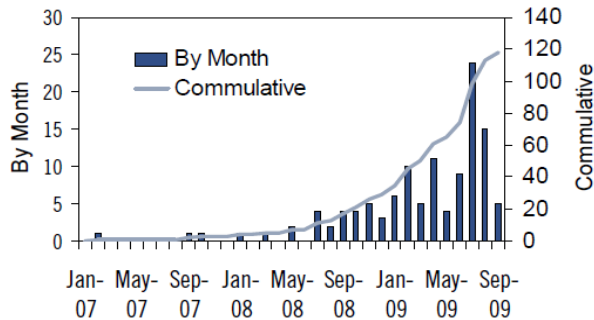




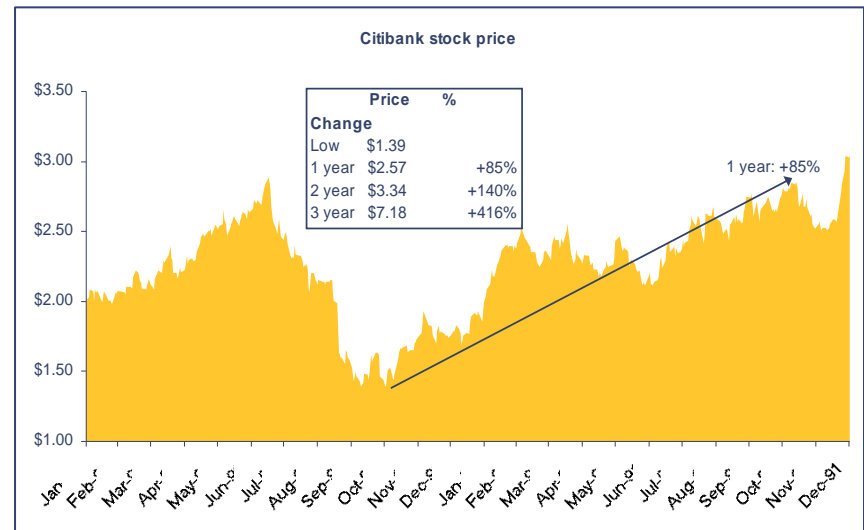
Recovery in financials

Plenty of restructuring opportunities but no short-term play

Figure 12. Failed Banks



Source: FDIC



Source: Bloomberg

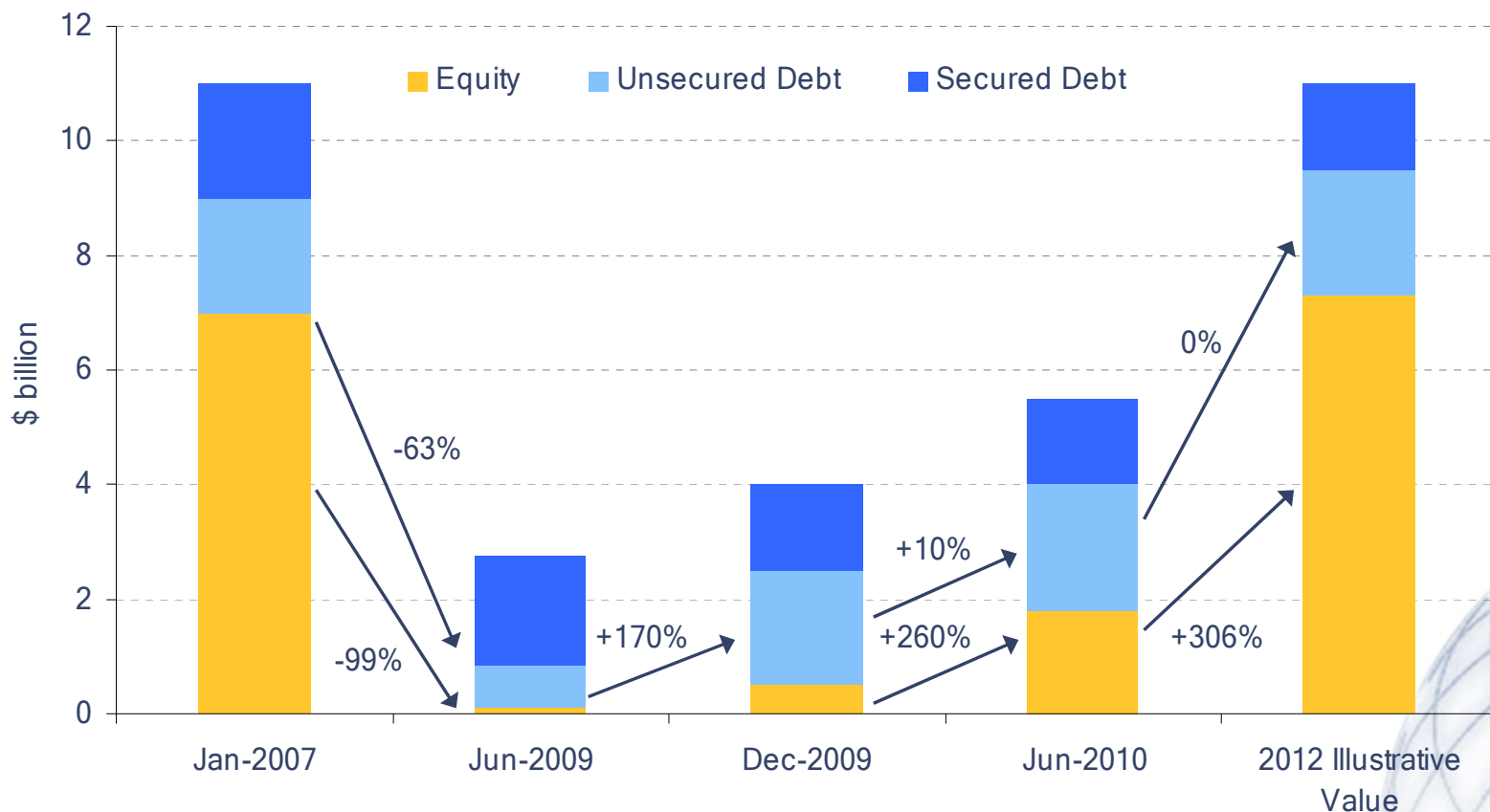
- Bank stocks tend to move together in the short run, but ultimately prices will reflect fundamentals regarding profitability, expected loan losses and the outlook for a successful restructuring
- Regional US banks have more exposure to commercial and residential mortgage markets: 12% of banks have commercial real estate exposure 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)



Post-reorganisation equity: stylized example

Recapitalization provides significant upside

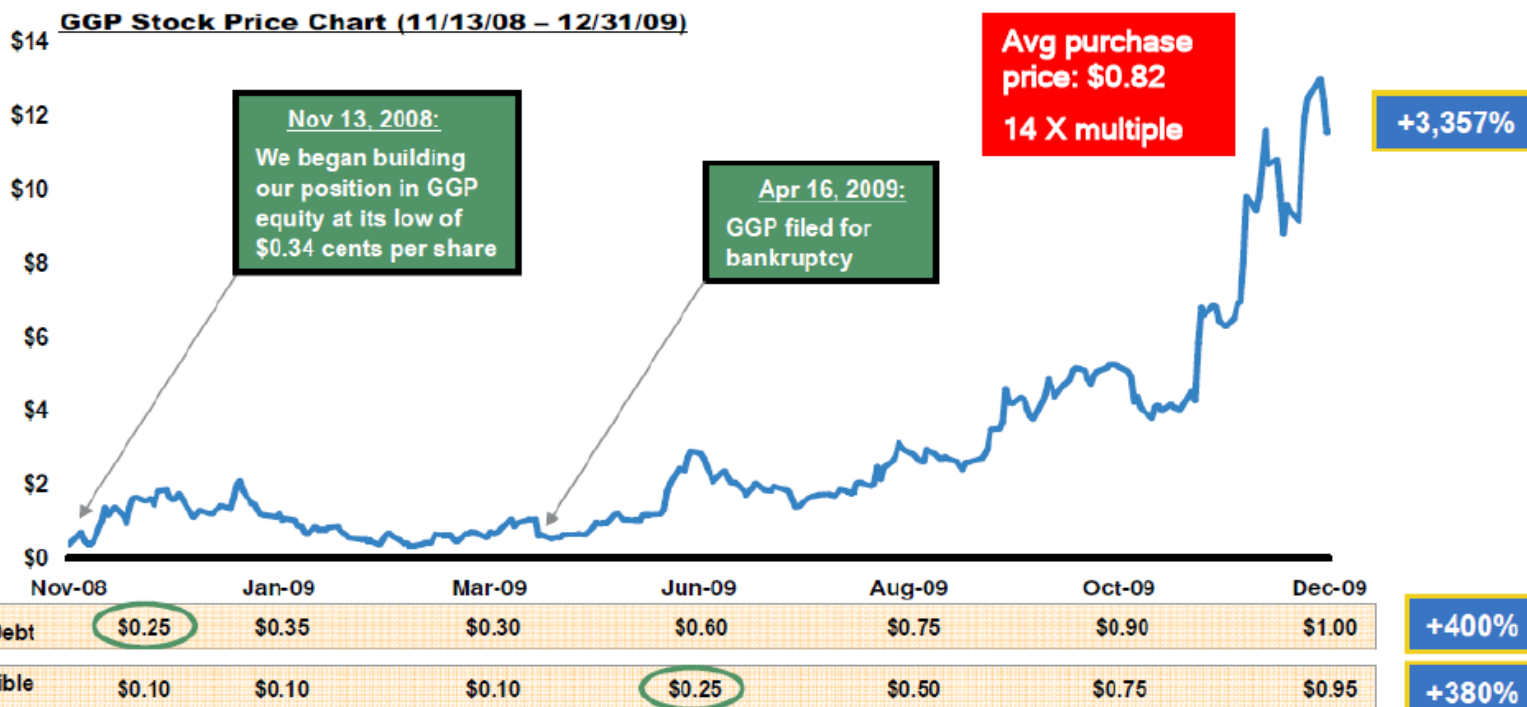
Company XYZ (actual example)





Post-reorganisation equity: actual example

General Growth Properties (GGP)

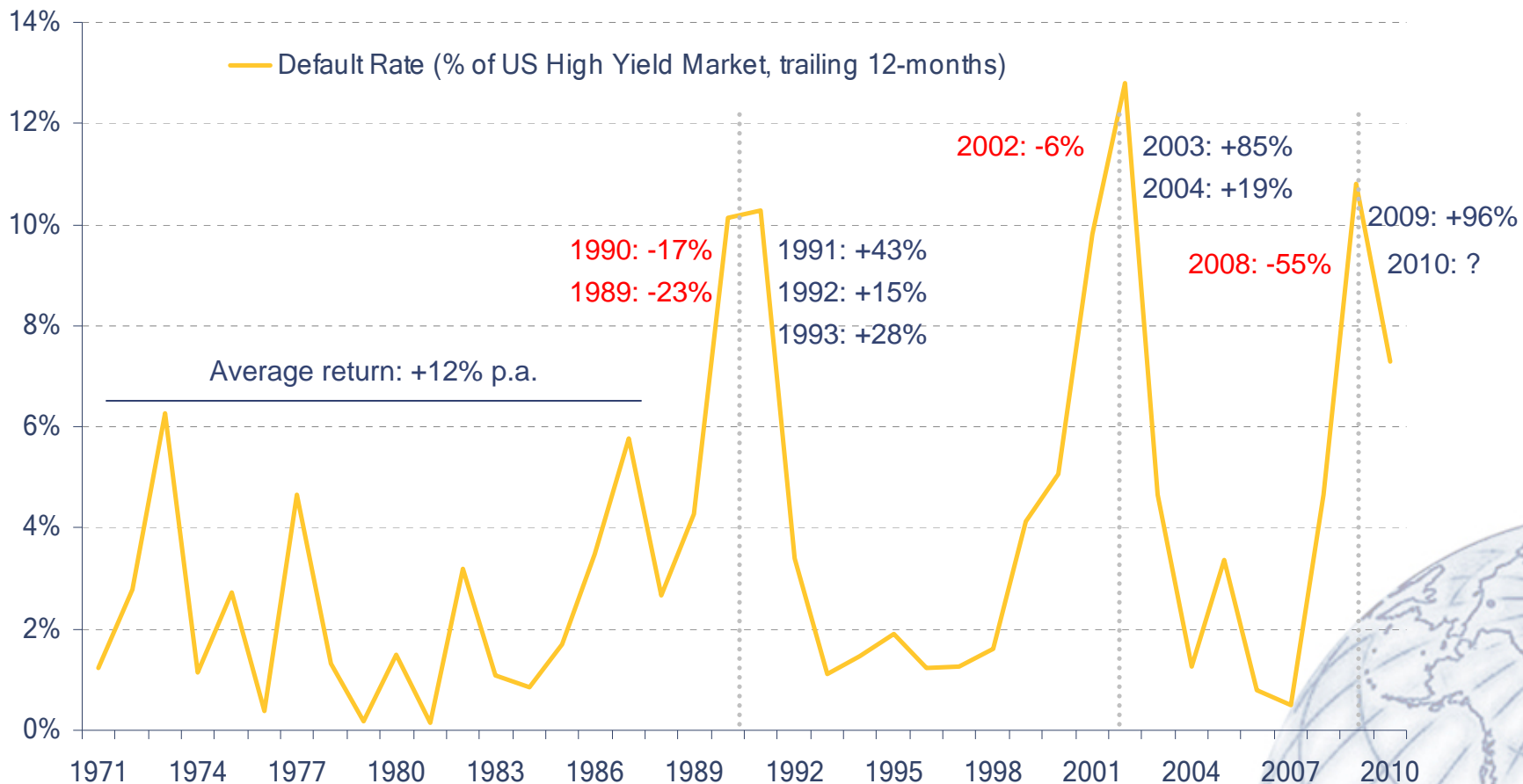


- The activist fund that invested in GGP and unlocked its value, has been in Theta Deep Value Fund since Mid-2007
- The fund manager was also the first to address the weak business models of monoline insurers in 2002 (and benefited greatly from short positions since then)



Distressed market returns through the cycle

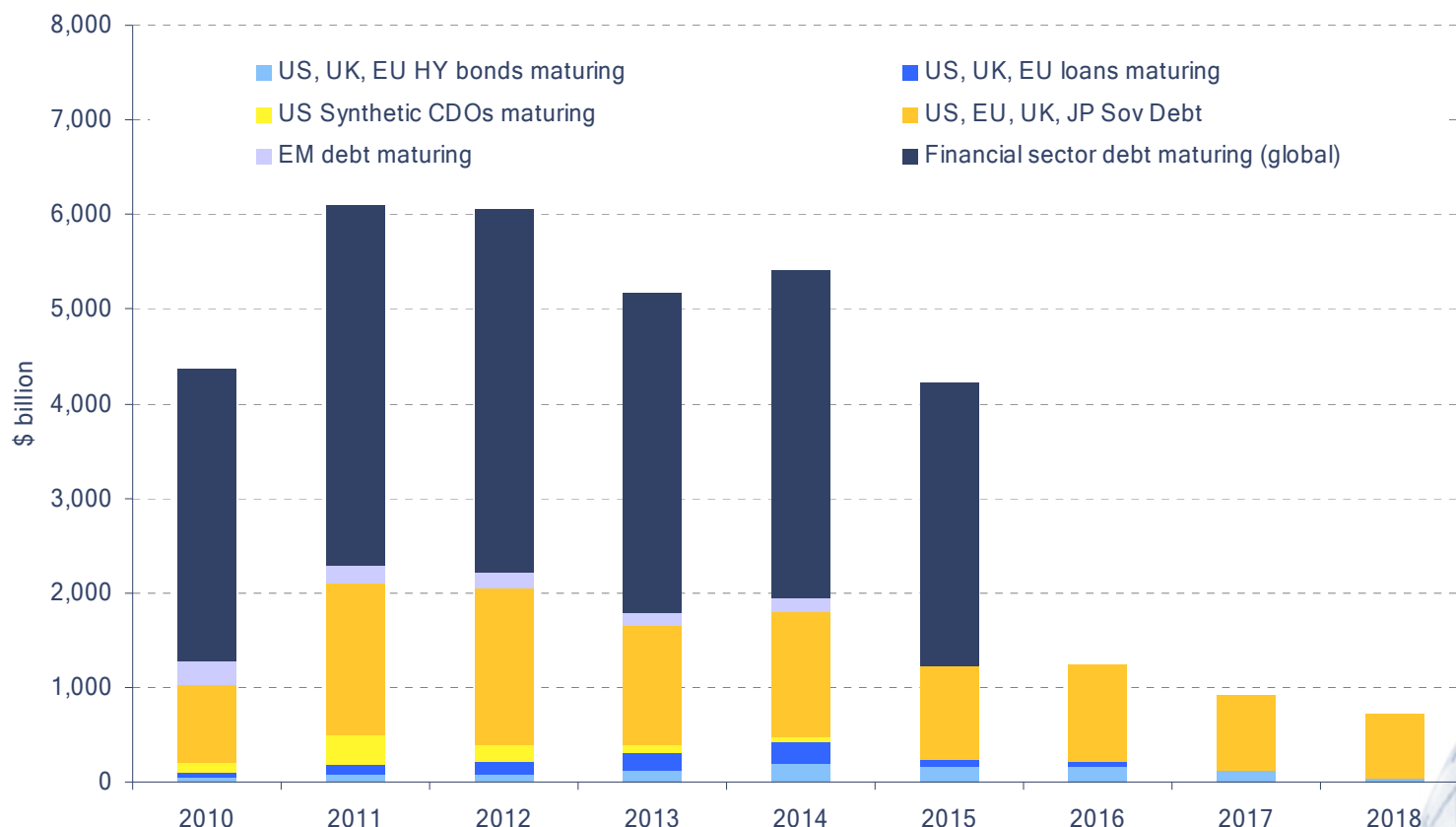
Total return on Altman-NYU Defaulted Bond Index





Wall of supply meets constrained demand

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



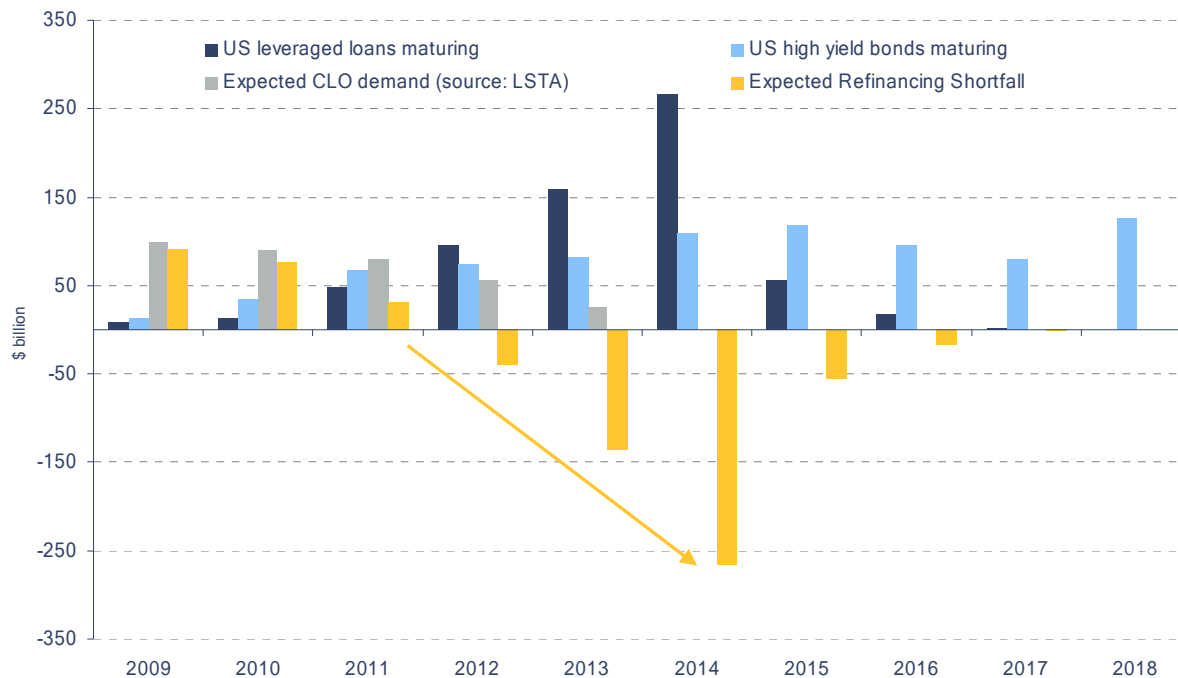
Source: S&P/LCD, LSTA, JP Morgan, IMF, GS, calculations Theta Capital Management





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

- From 2011 to 2014, 89% of the US bank loan market will have to be refinanced
- In addition, \$2 trillion of loan disposition programs announced by US and European banks. With strong profitability, banks now have room to take write-downs and start reducing their loan books
- With CLO's out of the game, the loan market faces a refinancing shortfall - who will pick up the slack?

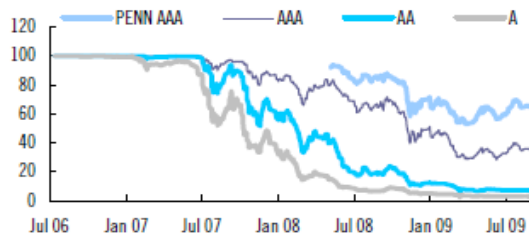




Value in distressed ABS

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 20 Sep 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	17%	33%	16%
ABX 06-2 A2	7%	7%	0%
ABX 06-2 Baa2	5%	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)

- Securitization market 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
- US house prices seem to stabilize around a cumulative decline of -35%
- Supply/demand imbalance similar to corporate debt
- Strong fundamental credit & structuring skills allow managers to cherry-pick individual bonds with recovery potential, intermediate cash flows and structural protection features

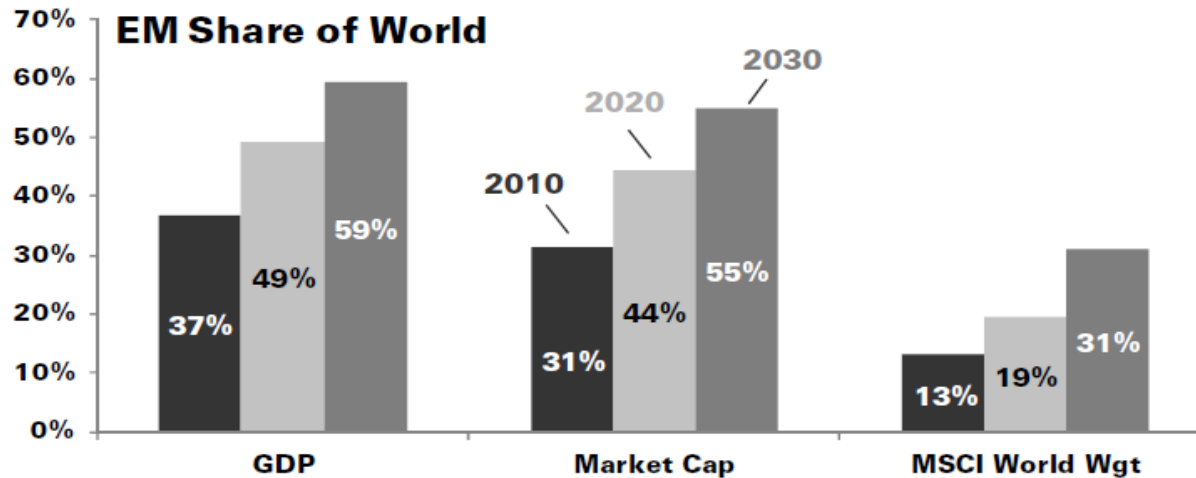




Emerging markets

Not valuations, but economic growth & capital markets deepening

EM equities may represent 55% of global market cap by 2030



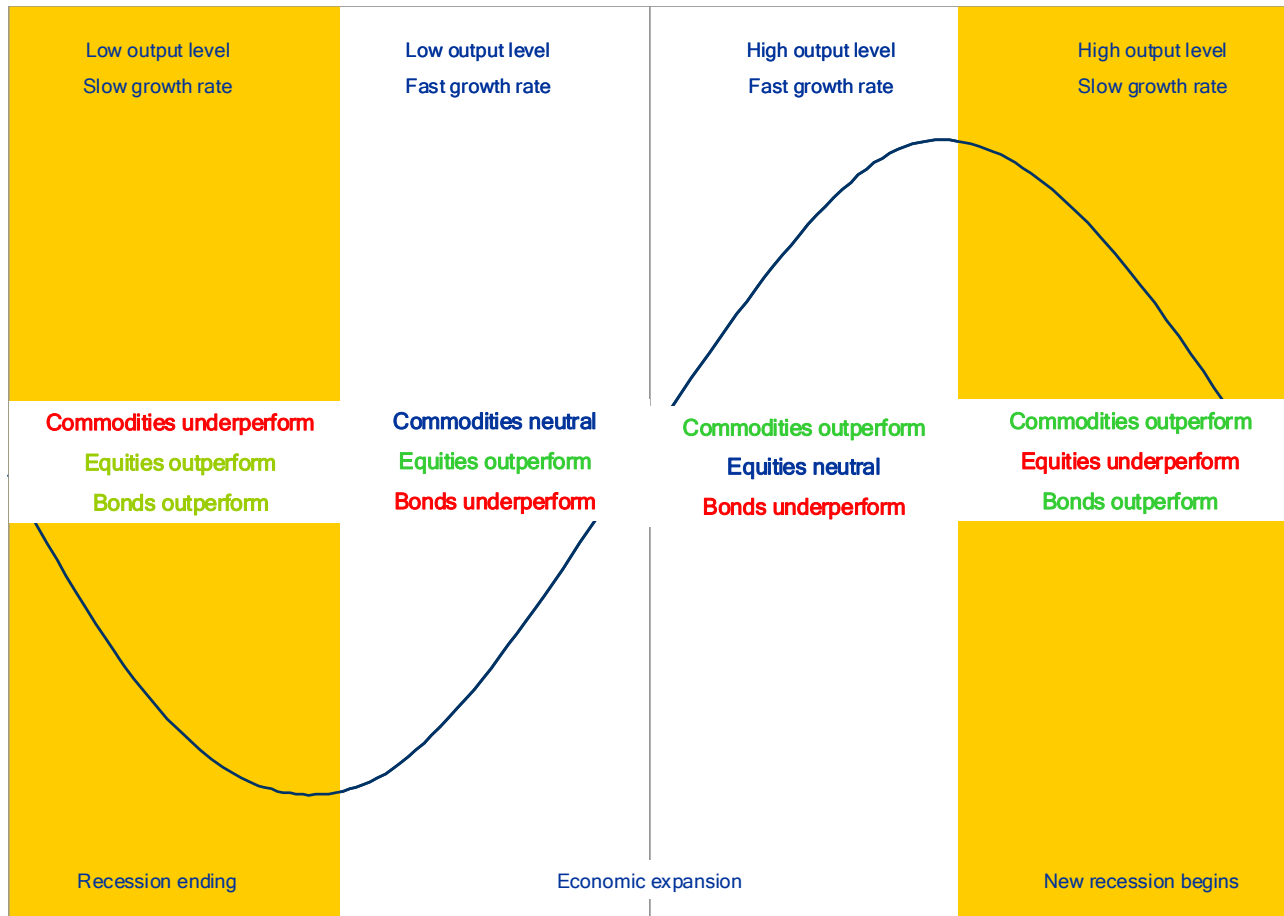
Source: IMF, MSCI, Goldman Sachs Global ECS Research estimates.

- EM economic growth will outpace developed markets with less structural risks (higher labour and capital productivity from a lower base)
- EM equity market cap may triple from \$14 trillion to \$45 trillion in next 15 years
- Capital markets deepen as economies mature: institutionalization of EM savings pools
- Larger, deeper, less restricted capital markets → better liquidity/trading conditions for hedge funds



Investment opportunities

Commodity investing through the cycle



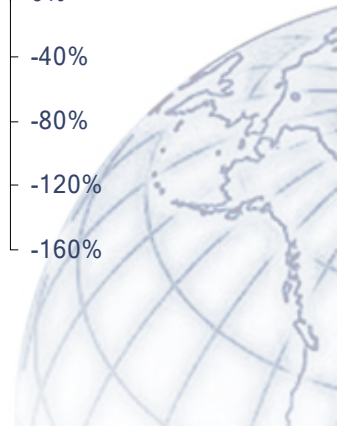
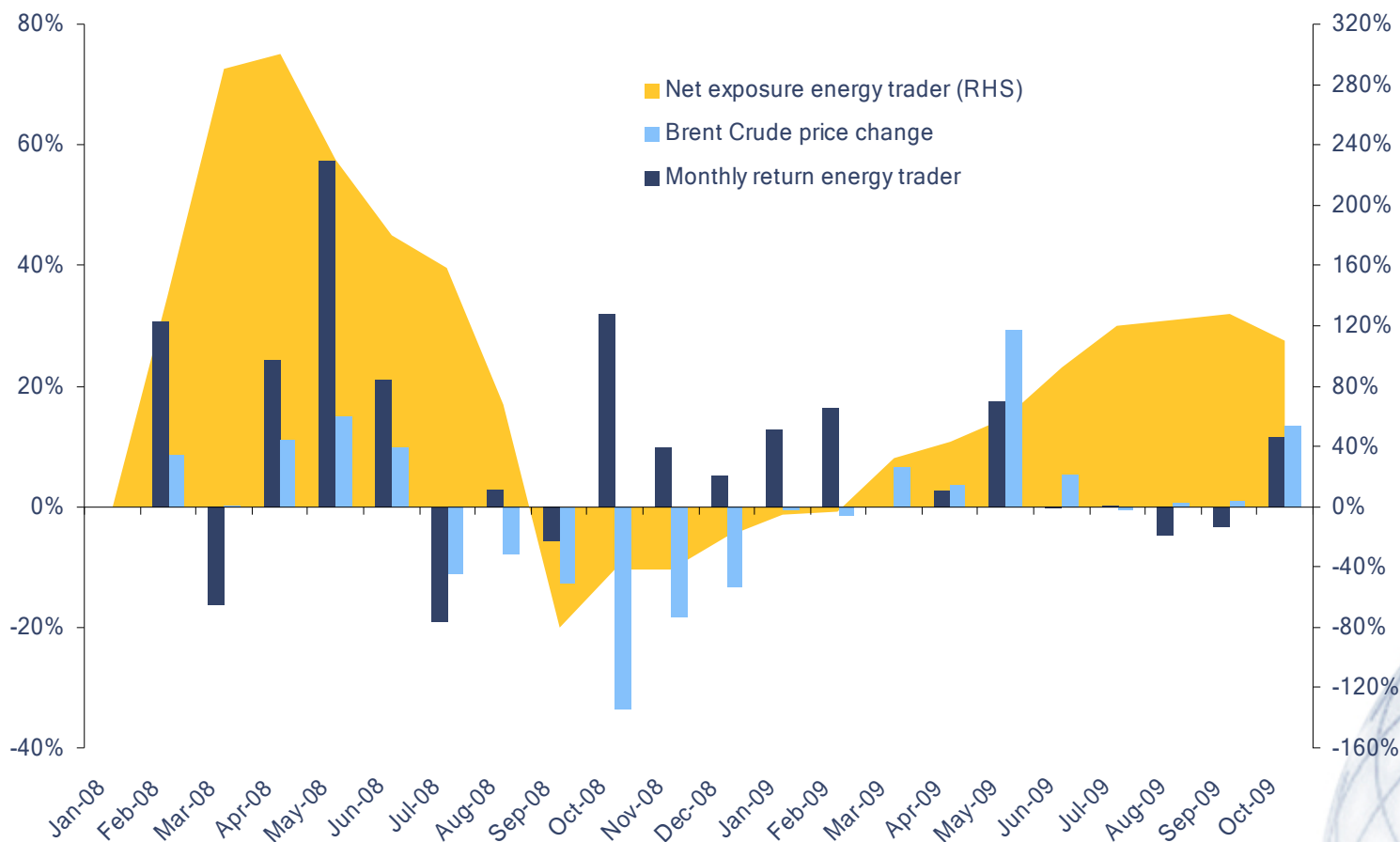
Source: GS ECS Research, Theta Capital Management. Data for period 1970-1996





Investment opportunities

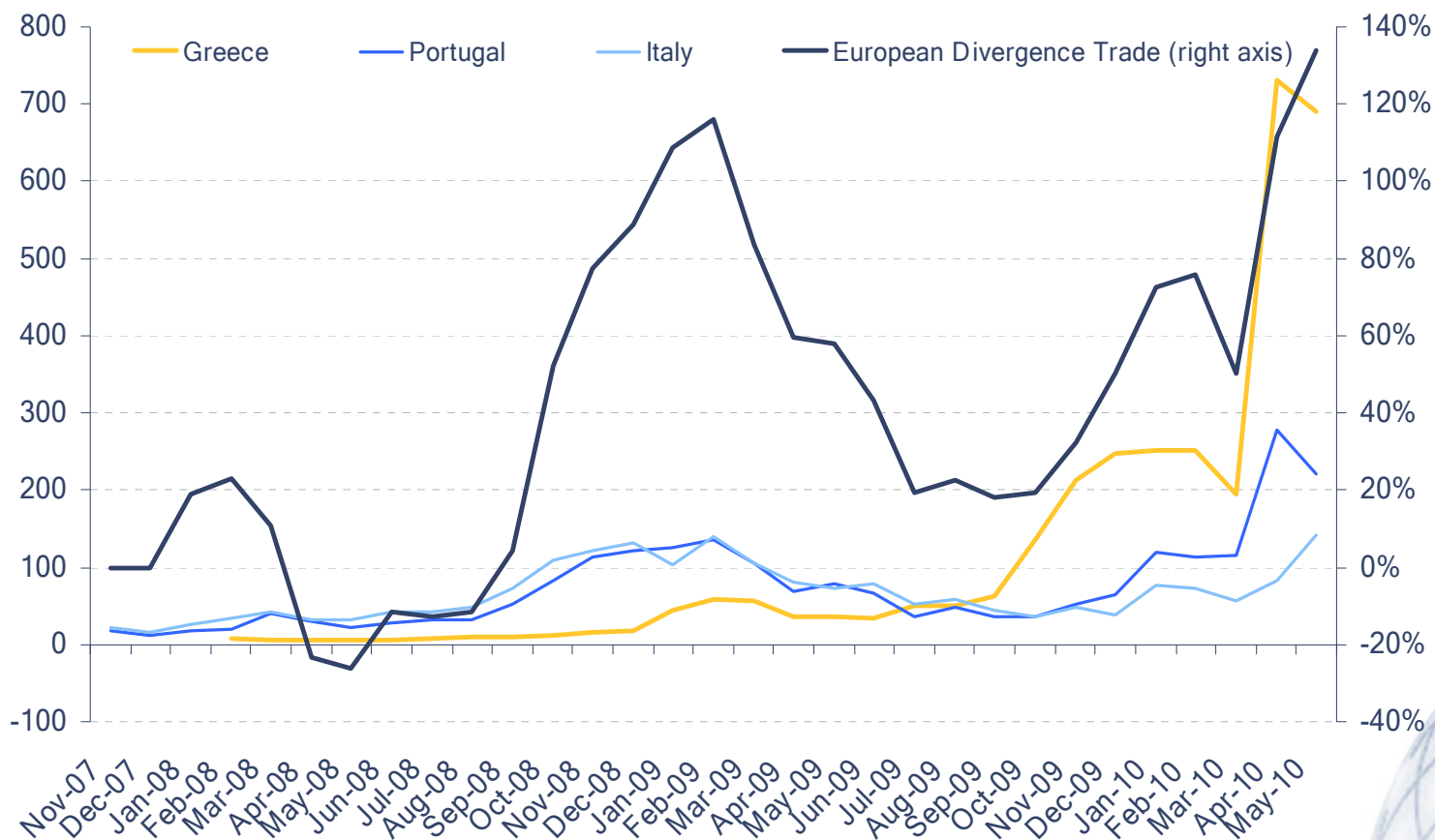
Discretionary trading commodities: active exposure management





Global macro: European divergence trade

Short positions in PIIGS provide hedge on portfolio level



Source: Bloomberg, Theta Capital





Theta Deep Value Fund

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.





Contact Details

Theta Capital Management B.V.

Johannes Vermeerstraat 9

1071 DK Amsterdam

The Netherlands

Telephone: +31 (0) 20 5722733

Fax: +31 (0) 20 5722744

E-mail: info@thetacapital.com

Website: www.thetacapital.com

