Theta Quarterly Review

THETA
CAPITAL MANAGEMENT B.V.

DE LAIRESSESTRAAT 180
1075 HM AMSTERDAM
THE NETHERLANDS
T +31 20 5 722 733
F +31 20 5 722 744
I WWW.THETACAPITAL.COM

Third Quarter 2007

Theta Capital Management

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Market review

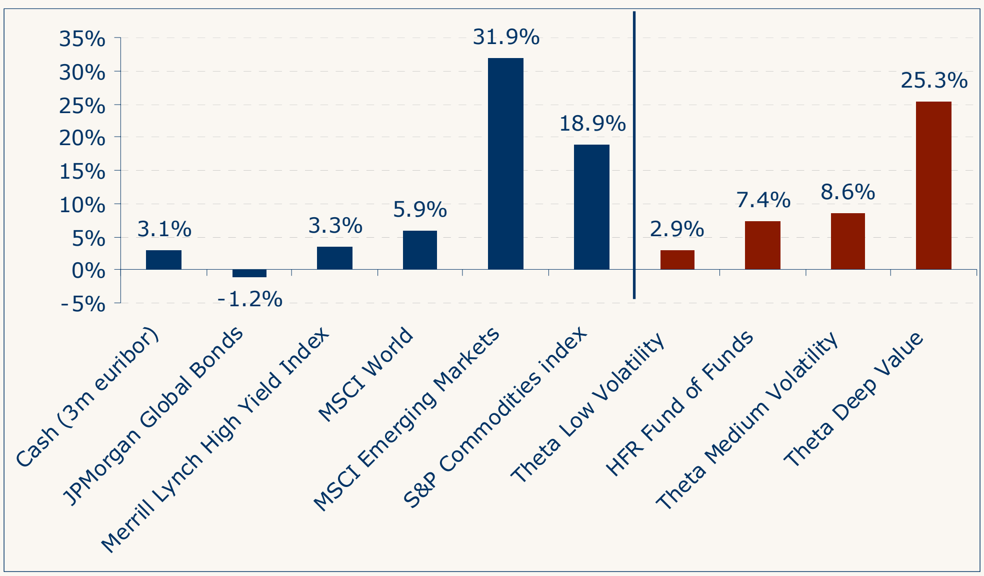
The third quarter proved to be a challenging environment for hedge funds. During the quarter the HFR fund of fund index gained 0.31% and ended the quarter with a year-to-date performance of 7.4% (in Euros).

Our Low and Medium volatility portfolios posted small negative results for the quarter, but the year to date numbers are satisfactory. Our Low Volatility portfolio is up a modest 2.9% and the Theta Multistar Medium Volatility portfolio is up 8.6%. The Theta Deep Value fund posted strong returns in the third quarter, being up over 10%. Year to date the Theta Deep Value fund is up over 25%.

	3rd Quarter	YTD 2007
Theta Multistar Low Volatility	-1.06%	+2.87%
Theta Multistar Medium Volatility	-0.69%	+8.61%
Theta Deep Value Fund	+10.53%	+25.27%

Exhibit 1 gives an overview of the returns for different asset classes in 2007. Although the returns for global equities (MSCI World) are modest (+5.9%), emerging markets equities and commodities have generated strong results so far this year. The HFR fund of fund index was up 7.4% till the end of September.

Exhibit 1 Year-to-date returns by asset class (hedged into EUR)



In the third quarter we saw a further weakening of the credit markets led by the US sub-prime mortgage markets. The unwinding of the Bear Stearns hedge fund in June was the start of a volatile summer period as investors lowered their exposure to the asset backed sector. During July and August the liquidity dried up and de-leveraging of large funds triggered forced selling. This led to big market dislocations, especially in crowded trades like “long mining and short financials”. Another clear example was the relative movement between senior secured bank loans and high yield bonds. Whereas bank loans were lower as a result of de-leveraging, synthetic high yield indices rallied the most since their inception. Also the equity markets showed big moves, emerging markets equities were down almost 15%

mid month August and ended the month with only a small negative return (-2%). In September a relief rally materialized after the fed decided to cut interest rates.

Although global equity markets in general showed a flat performance during the quarter with MSCI World down 0.8%, emerging markets equities and Asia performed very well. Emerging markets equities and Asia were de-coupling form the rest of the world.

The current credit crisis is increasingly shaping up to be the inverse of 1997/98. Then a credit crunch caused by leveraged economic decay in Asia and Russia led to massive global monetary easing. This had the desired effect of stabilising Asia and the unintended consequence of massively over stimulating bystander economies (principally the US) which did not need monetary stimulation at that time, resulting in the Nasdaq bubble. Now the inverse is true. The US's loss is the emerging world's gain.

The HFR strategy performance overview (see exhibit 2) shows that since 2003 emerging markets hedge funds were on top for 4 out of the last 5 years (in 2004 distressed was the best performing category, while emerging markets was number 2). Not surprisingly, emerging markets equity hedge funds saw huge inflows the last couple of years. According to HFR the estimated assets in emerging markets hedge funds are over USD 80 billion, versus USD 13 billion by the end of 2002. In September 2007 emerging markets hedge funds accounted for over 60% of the hedge funds inflows. Although we believe that the longer term outlook for emerging markets countries is positive, the present inflows seem somewhat excessive. This could be a sign that a lot of hot money is entering the market which could lead to an increase of volatility.

Exhibit 2 HFRI Indices Annual Investment Returns (1997 – YTD Q3 2007)

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	YTD 2007
S&P 500 33.33%	S&P 500 28.59%	HFRI Sector 67.00%	HFRI Merger Arbitrage 18.02%	HFRI Convertible Arbitrage 13.37%	Lehman Gov't/Credit 12.10%	HFRI Emerging Markets 39.36%	HFRI Distressed Securities 18.89%	HFRI Emerging Markets 21.04%	HFRI Emerging Markets 24.26%	HFRI Emerging Markets 20.06%
HFRI Equity Hedge 23.41%	HFRI Equity Hedge 15.98%	HFRI Emerging Markets 55.86%	HFRI Convertible Arbitrage 14.50%	HFRI Distressed Securities 13.28%	HFRI Convertible Arbitrage 9.05%	HFRI Distressed Securities 29.56%	HFRI Emerging Markets 18.42%	HFRI Equity Hedge 10.60%	HFRI Sector 16.31%	HFRI Sector 9.96%
HFRI Event-Driven 21.23%	Lehman Gov't/Credit 12.00%	HFRI Equity Hedge 44.22%	HFRI Relative Value Arbitrage 13.41%	HFRI Event-Driven 12.18%	HFRI Macro 7.44%	S&P 500 28.67%	HFRI Event-Driven 15.01%	HFRI Fund Comp. 9.30%	HFRI Distressed Securities 15.94%	HFRI Equity Hedge 9.87%
HFRI Macro 18.82%	HFRI Convertible Arbitrage 7.77%	HFRI Fund Comp. 31.29%	Lehman Gov't/Credit 13.27%	HFRI Emerging Markets 10.36%	HFRI Relative Value Arbitrage 5.44%	HFRI Sector 27.93%	HFRI Sector 11.34%	HFRI Sector 9.14%	S&P 500 15.78%	S&P 500 9.13%
HFRI Fund Comp. 16.79%	HFRI Sector 7.62%	HFRI Fund of Funds Comp. 26.47%	HFRI Equity Hedge 9.09%	Lehman Gov't/Credit 9.40%	HFRI Distressed Securities 5.28%	HFRI Event-Driven 25.33%	S&P 500 10.86%	HFRI Distressed Securities 8.27%	HFRI Event-Driven 15.33%	HFRI Fund Comp. 8.91%
HFRI Emerging Markets 16.57%	HFRI Merger Arbitrage 7.23%	HFRI Event-Driven 24.33%	HFRI Event-Driven 6.74%	HFRI Relative Value Arbitrage 8.92%	HFRI Emerging Markets 3.70%	HFRI Macro 21.42%	HFRI Fund Comp. 9.03%	HFRI Fund of Funds Comp. 7.49%	HFRI Merger Arbitrage 14.24%	HFRI Fund of Funds Comp. 8.09%
HFRI Merger Arbitrage 16.44%	HFRI Macro 6.19%	S&P 500 21.03%	HFRI Fund Comp. 4.98%	HFRI Macro 6.87%	HFRI Fund of Funds Comp. 1.02%	HFRI Equity Hedge 20.54%	HFRI Equity Hedge 7.68%	HFRI Event-Driven 7.29%	HFRI Fund Comp. 12.89%	HFRI Macro 7.98%
HFRI Fund of Funds Comp. 16.20%	HFRI Relative Value Arbitrage 2.81%	HFRI Macro 17.62%	HFRI Fund of Funds Comp. 4.07%	HFRI Fund Comp. 4.62%	HFRI Merger Arbitrage -0.87%	HFRI Fund Comp. 19.55%	HFRI Fund of Funds Comp. 6.86%	HFRI Macro 6.79%	HFRI Relative Value Arbitrage 12.37%	HFRI Event-Driven 7.49%
HFRI Relative Value Arbitrage 15.93%	HFRI Fund Comp. 2.62%	HFRI Distressed Securities 16.94%	HFRI Distressed Securities 2.78%	HFRI Fund of Funds Comp. 2.80%	HFRI Fund Comp. -1.45%	HFRI Fund of Funds Comp. 11.61%	HFRI Relative Value Arbitrage 5.58%	HFRI Merger Arbitrage 6.25%	HFRI Convertible Arbitrage 12.17%	HFRI Merger Arbitrage 7.21%
HFRI Distressed Securities 15.40%	HFRI Event-Driven 1.70%	HFRI Relative Value Arbitrage 14.73%	HFRI Macro 1.97%	HFRI Merger Arbitrage 2.76%	HFRI Event-Driven -4.30%	HFRI Convertible Arbitrage 9.93%	HFRI Macro 4.63%	HFRI Relative Value Arbitrage 6.02%	HFRI Equity Hedge 11.71%	HFRI Relative Value Arbitrage 6.42%
HFRI Convertible Arbitrage 12.72%	HFRI Distressed Securities -4.23%	HFRI Convertible Arbitrage 14.41%	HFRI Sector 0.31%	HFRI Equity Hedge 0.40%	HFRI Equity Hedge -4.71%	HFRI Relative Value Arbitrage 9.72%	Lehman Gov't/Credit 4.54%	S&P 500 4.91%	HFRI Fund of Funds Comp. 10.39%	HFRI Distressed Securities 5.38%
Lehman Gov't/Credit 9.87%	HFRI Fund of Funds Comp. -5.11%	HFRI Merger Arbitrage 14.34%	S&P 500 -9.09%	HFRI Sector -4.90%	HFRI Sector -12.85%	HFRI Merger Arbitrage 7.47%	HFRI Merger Arbitrage 4.08%	Lehman Gov't/Credit 2.55%	HFRI Macro 8.15%	HFRI Convertible Arbitrage 4.78%
HFRI Sector 5.21%	HFRI Emerging Markets -32.96%	Lehman Gov't/Credit -2.40%	HFRI Emerging Markets -10.71%	S&P 500 -11.85%	S&P 500 -22.09%	Lehman Gov't/Credit 5.07%	HFRI Convertible Arbitrage 1.18%	HFRI Convertible Arbitrage -1.86%	Lehman Gov't/Credit 4.07%	Lehman Gov't/Credit 4.30%

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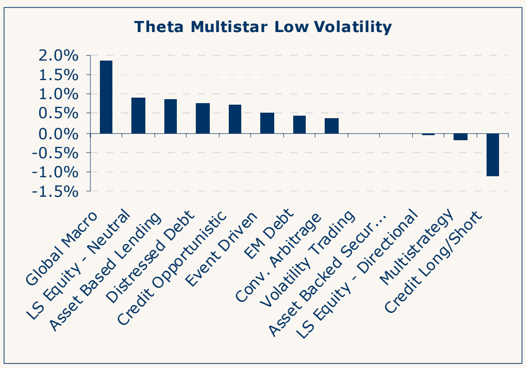
Portfolio Review

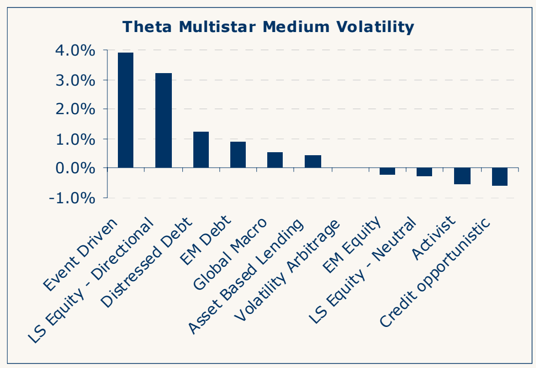
Exhibit 3 shows the year to date returns per strategy for both Theta Multistar funds. Our global macro managers were the main contributors for the year as they benefited from an increase of volatility during the 3rd quarter. The other sectors contributed rather evenly to the performance this year, the only big detractor from the performance being two long/short credit funds. During the summer, uncertainties linked to the US sub-prime sector caused a major set back for financial markets. Quantitative managers and market neutral managers had to de-lever their portfolios leading to extreme volatility and severe dislocations between related instruments, with the result that not all hedges worked during this month. Going forward we will focus more on gross exposure. Some of our managers mitigated losses by active trading around their positions.

The biggest contribution in the Medium Volatility portfolio came from a position in the event driven segment, where short exposure to the US sub-prime mortgage market performed very well this year and worked as a good hedge in our portfolios.

Another strong contributor to the performance is our group of long short equity hedge funds. This is a well diversified allocation of 11 different hedge fund managers all with different investment strategies. The underlying managers benefited mostly from their long exposure to emerging markets and commodities (oil related).

Exhibit 3 Theta Multistar – YTD performance (gross) by strategy





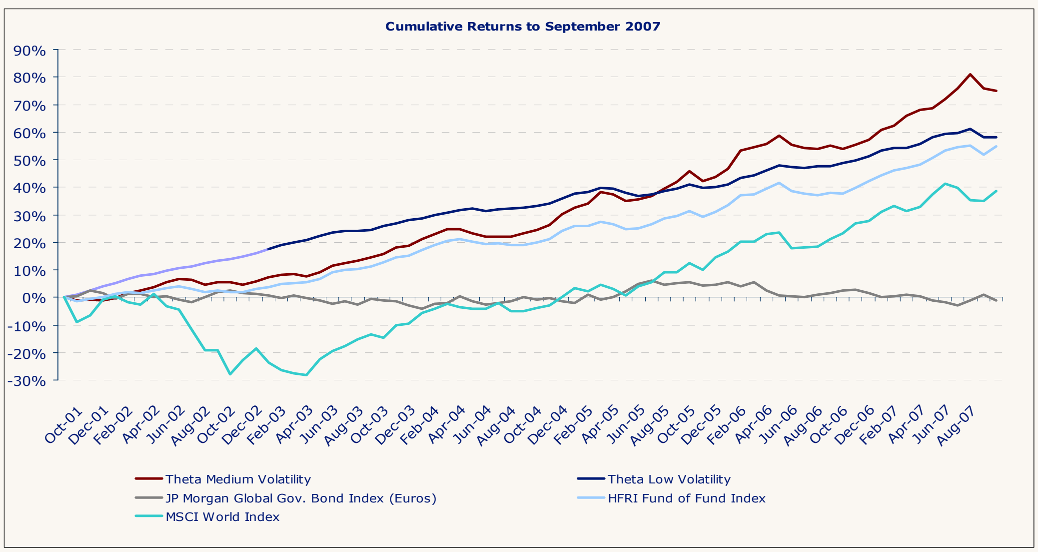
Over the course of the year we also increased gradually the Asia exposure in our portfolios. An Asia convertible arbitrage manager was added to our Low Volatility portfolio as the opportunities for trading convertibles in Asia are increasing rapidly. Currently the Asia convertible bond market has the same size as the European market. And regulation has become more market conform in the region. In India and Malaysia for instance, it has become easier to short stocks and China is cautiously opening up their market to foreign investors.

The outlook for the rest of the year remains uncertain with the US sub prime mortgage debacle starting to cause havoc at major financial institutions. Some big hedge funds were hit whilst several large banks had to take substantial write downs on their mortgage exposure. Whether those write downs are enough is another question. When interest rates on the mortgages will be reset in 2008 some managers expect the actual delinquencies to increase to about 18%. While the correction in the sub prime market is well underway, it seems that a decline in US home prices is still to come. Nationwide home prices have fallen only 3% so far, while a decline of 15% to 25% is necessary to bring home prices back in line with disposable income. This should add to the volatility of global financial markets during the coming months.

On the other hand the "golden period" for equities, mid October till mid February has begun. Historically almost all the returns in equities have been generated during this time period, which could give some support during the next quarters.

An item to watch in the coming months is Chinese food prices. Due to blue ear fever and recent floods pork prices in China increased more than 100% during the last 12 months. Headline CPI is now at 4.4% from 1.8% six months ago. There is a growing risk that headline inflation will increase to 6% which could lead to "administrative" measures. The Chinese government, which had its 5 year planning meeting in October, is clearly worried about the social divide in the country with the prosperous coastal provinces benefiting from the stellar growth of the economy. On the other hand the 700 million farmers in the Chinese hinterland, living at subsistence conditions will have difficulties absorbing sharp rises in food prices. The occurrence of social unrest caused by high inflation may be the prime reason for a possible renminbi revaluation, rather than sable rattling from US congressmen.

In the current portfolio we have exposure to short / neutral credit hedge funds with a relatively short time horizon (up to 24 months) and funds which invest in distressed ABS and corporate credits to benefit from the increasing number of opportunities in the US credit market. In addition we have exposure to emerging markets equities and Asia. The underlying hedge funds are selected on their trading and shorting skills to avoid draw downs and to benefit from the volatility.



Theta Capital Management B.V.
De Lairessestraat 180
1075 HM Amsterdam
The Netherlands

Telephone:	+31 (0) 20 5722733
Fax:	+31 (0) 20 5722744
E-mail:	info@thetacapital.com
Website:	www.thetacapital.com