Investor letter

Third Quarter 2009

October 2009

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Performance review

The Theta Deep Value fund is up 10% for the year whilst avoiding directional bets

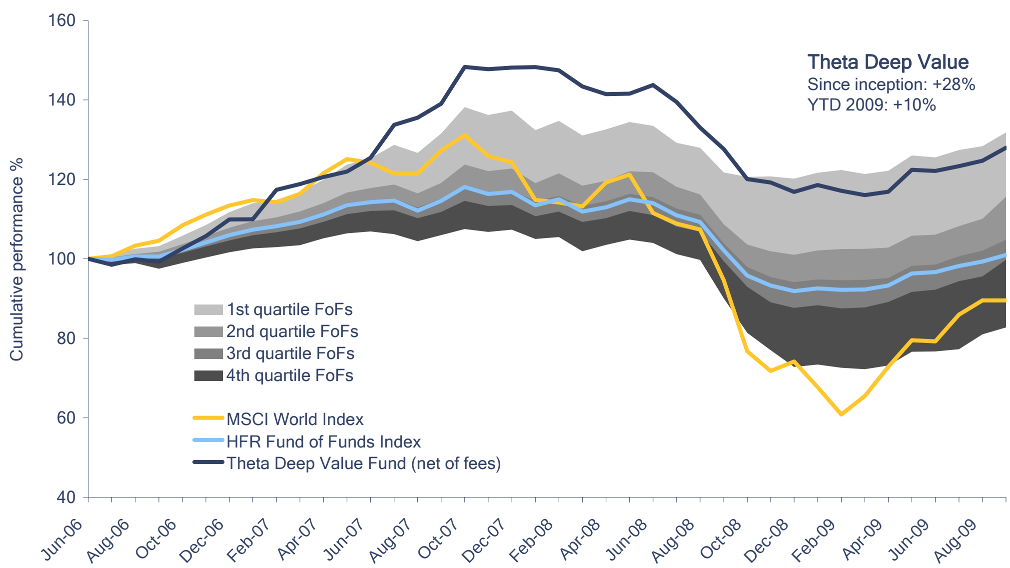
Theta Deep Value Fund gained 4.91% in the third quarter of 2009, bringing the 2009 YTD return to +10.2%. Gains during the quarter were broadly spread across various managers. Positions in the financial sector (Paulson Recovery), emerging markets (The Montpelier Fund), liquid US large caps (Pershing Square) and a general tightening of credit spreads (CQS Directional Opportunities Fund) all generated sizeable gains for Theta Deep Value.

Looking back over the last six months, it is (too) easy to say that risk assets were oversold and due for a rebound. We are pleased that our managers within Theta Deep Value have in general been able to reposition their portfolios and participate to some extent in the rally. This has been done without taking outsized risks or *short-term* directional bets assuming that the worst is behind us. Rather, our managers are ploughing through data and possible investments and continuing to work hard to identify opportunities with a *medium-term* investment horizon.

Solid three year track record for Theta Deep Value in which it outperforms both peers and other asset classes

Theta Deep Value now has a track record of over three years in which it has significantly outperformed not only other asset classes but also the majority of its peers. An investor who invested at inception of the fund in June 2006 would have seen a return of 28% over that period compared to -21% for the MSCI world and 1% for an investment in the HFR Fund of Funds index.

Chart 1: Performance Theta Deep Value Fund



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.**

Table 1: Performance Theta Deep Value Fund

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%				**10.19 %**
Cumulative Performance	18.65%	17.33%	16.27%	17.16%	22.90%	22.64%	23.93%	25.32%	28.66%				

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

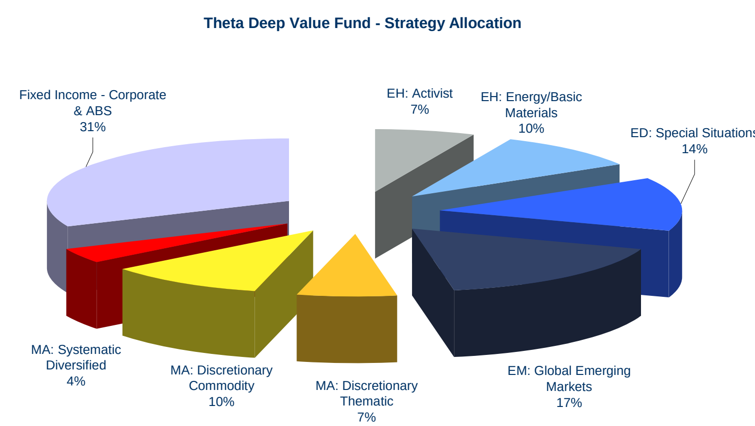
Portfolio positioning

Good opportunities going forward…

We see interesting opportunities going forward if we look at the quality of the fund managers in our portfolio and the opportunities these managers see themselves in the current market conditions. The outlook for 2010 and beyond is promising for the managers in Theta Deep Value given a number of factors.

First of all, the recent rally has been fairly indiscriminate as ultra-loose monetary policy across the world has meant investors looked for alternatives for low yielding cash and government bonds. However, as Hyman Minsky predicted in his *financial instability hypothesis*, governments have very powerful means to end a recession, but these policies give rise to the next phase of instability as the next bubble is inflated. This is exactly what we may be witnessing right now. The price we are paying for taking out the risk of a systemic failure of the world's financial system, is the possible creation of new bubbles around the world.

Chart 2: Strategy allocation Theta Deep Value Fund



… but we and our managers avoid taking outsized directional risk

Cognisant of this risk, we now have an allocation of around 20% to global macro/trading strategies, which have the potential to do well in any market environment, including a challenging environment for risk assets.

Investment opportunities

Opportunities are present across a wide range of investment themes, strategies and asset classes

The portfolio of Theta Deep Value Fund has currently capital allocated to the following investment themes:

- Recovery of financial institutions, notably regional US banks
- Distressed corporate credit & asset-backed securities
- Emerging markets (long-biased equity & distressed debt)
- Global macro: active long/short commodity traders & divergence in European credit spreads
- Oil exploration & production and oil services

In the view of some of our managers, apart from opportunities on the long side there are also considerable opportunities on the short side. For example, within the financials segment, one of our managers who has benefited nicely from the recent rally in that segment, now strongly feels that for the majority of stocks in this universe the downside is substantial and he has been building up his short book accordingly.

Recently, Bill Ackman from Pershing Square has also detailed in a 34 page presentation his short thesis on Realty Income, a US listed REIT. Without going into the exact details (the presentation is available for anyone interested), this is another example of a manager who we expect will make money both on his longs as well as his shorts going forward.

Our managers have been able to acquire assets at distressed levels during the turmoil

Second, some of our more long-biased managers have been able to acquire assets at some very attractive levels during the fourth quarter of last year. Some of these have already rerated to some extent (for example, subordinated debt of financial institutions). Other positions will take somewhat longer to materialize. For example, our manager who invests in the oil exploration & production and oil services companies has been able to acquire assets in Kazakhstan and Brazil from distressed sellers during the crunch late last year. The potential upside from these assets is a multiple of the purchase price.

Active managers are able to trade volatile commodity markets in any environment

Third, we have a meaningful allocation to active commodity managers. We expect continued volatility in these markets going forward, with an uncertain outlook for the global economy (and China's role as the engine of the world) and passive, index-based money flows creating excellent opportunities for active managers. At the same time, should the Super-Cycle in commodities return, we expect our managers to capture a significant part of the upside.

Emerging markets remain a core position, given our medium-term investment horizon

Fourth, we have sizeable exposure to global emerging markets. Emerging markets remain an attractive investment theme going forward: solid internal growth, low valuations and a healthy financial system without any of the excesses seen in the West. There will be considerable volatility going forward but if anything, recent experience has shown that a sizeable emerging market exposure with experienced, active managers is a good investment given the medium-term investment horizon of Theta Deep Value Fund.

The main contributors

There were four funds who contributed around 1% each this quarter: Paulson Recovery, Paulson Credit Opportunities, The Montpelier Fund and the CQS Directional Opportunities Fund. Given that overall market conditions in the third quarter of 2009 were not that different from the second quarter, it is not that surprising that these were also significant contributors during the second quarter.

The Paulson Recovery Fund (which invests primarily in the equity of distressed financials) had another good quarter as investors realised the risk of systemic failure of the global financial system had abated and valuations of financial institutions started to reflect a return to normality. The Paulson Recovery Fund was up 9% for the quarter, leaving the fund up around 19% for the year. One of the larger holdings within the Recovery Fund is IndyMac (currently called OneWest), the acquisition of which was closed in March of this year. Since that date, the financials index has nearly doubled and the Paulson funds have already seen a healthy increase in value on this investment. However, overall the manager remains cautious and has not fully participated in this rally as he feels that investors by now are possibly underestimating future losses and capital needs of the financial sector. The fund has therefore increased its already sizeable short book which should protect the fund's returns if concerns about the health of financial institutions arise again.

The Montpelier Fund gained 17% during the third quarter, leaving it up 48% for the year. The fund benefited from its positions in subordinated debt of financial institutions as well as its emerging market equity exposure. Distressed debt investments were reduced during the third quarter as the manager took profits on some of his holdings. Some of the proceeds were used to further invest in the Russian electricity sector and EMEA region financial companies. Banks effectively offer a leveraged play on the growing wealth of the emerging markets consumer. As incomes rise and standards of living converge with the West, demand for financial products will rise strongly. Furthermore, corporate lending gives exposure to the stronger economic growth of emerging nations as the effects of the financial crisis in the West ease.

The main detractors

The European Divergence Fund was the main detractor this quarter (down 17%). The thesis of this fund remains unchanged (see previous quarterly letters) and we remain happy to have this fund in our portfolio as a hedge against the long bias that most of our other managers have been building up over the last months.

Our discretionary commodity managers disappointed during the third quarter and this strategy lost around 1% at portfolio level. Our base metals trader remains bearishly positioned as he feels that stocks in China have now reached a level where they pose a threat to prices. On the other hand, our dedicated energy trader suffered as the oil price continues to lag other risk assets. This manager expects significantly higher oil prices in the short term as the world economy returns to normal working mode and demand recovers.