

Amsterdam, 14 December 2011

To: All participants in Theta Legends Fund

Dear Participant,

As an investor in Theta Legends Fund (the “Fund”) we want to inform you about an important reorganization of the Fund.

### 1) Background

The financial crisis and its aftermath have caused changes in the hedge fund landscape. Size has become an ever more important aspect for investors, reflected in the biggest funds getting bigger, while smaller players have difficulties in retaining sufficient scale. Theta has not been immune to this development, and we have seen continuing outflows from our fund of funds since the financial crisis of 2008. This and the regulatory changes in the way hedge funds can be distributed to individual clients have caused Theta to rethink its business model. It has always been our objective to manage your money prudently and to anticipate changes in our industry. We believe the steps we are taking are timely and in the best interest of investors in our funds.

We have decided that going forward, Theta will concentrate on and augment its activities of managing individual, customized portfolios of hedge funds for large investors for which we see increasing demand. As a consequence, we no longer will manage publicly-offered funds of funds. Our current investors in the Theta Legends Fund will be offered to remain invested through the publicly listed Theta Legends XL Fund, which contains the same underlying portfolio but has the additional advantage of intra-day liquidity through the Euronext Amsterdam stock exchange. Additionally, it is with pleasure that we can inform you that we have come to an arrangement with Banque Privée Edmond de Rothschild (BPER) in Geneva by which they will accept transfers from our current fund of funds into their range of Prifund Alpha Funds. It is contemplated that, subject to completing all necessary formalities and approvals of supervisors and participants, that BPER will replace Theta as manager of the Theta Legends XL Fund.

We are especially pleased, as BPER is one of the most reputable participants in the hedge fund industry. BPER is the pioneer in the fund of hedge funds business, being the first to apply the strategy in 1969. Today, BPER is one of the leaders in the industry with over \$ 11 billion invested in hedge funds and the manager of some of the most successful fund-of-funds on offer. We have made a selection of five of their most attractive products, from which our investors can choose.

The transformation of Theta Legends will be effected by winding up the Fund and arranging for investors the possibility to join the Theta Legends XL Fund or the BPER funds, with no entry or exit fees. They will receive participations in the new funds in exchange for their pro-rata part of the assets of Theta Legends Fund. Participants who do not wish the exchange will remain in the existing fund and will receive cash over time as and when the investments are liquidated.

### 2) The new funds

In short, next to Legends XL, the following three Prifund Alpha funds have an investment strategy which is similar to the Theta Legends Fund:

#### Edmond de Rothschild Prifund $\alpha$ Uncorrelated

This is a defensive investment, offering a global exposure to hedge fund strategies with the exception of long/short equity strategies. It is designed to have limited correlation to equity markets.

*Keywords: conservative, low equity beta, highly diversified, bond like volatility*

#### Edmond de Rothschild Prifund $\alpha$ Diversified

This fund invests in numerous hedge funds selected from all three broad partitions of the alternative management universe: arbitrage & relative value, long/short equities and trading. It is BPER's exhaustive "alternative asset allocation" product, offering a full exposure to hedge fund strategies through a dynamic asset allocation process.

*Keywords: highly diversified, all strategies, active strategy allocation, bond like volatility*

#### Edmond de Rothschild Prifund $\alpha$ 20

This subfund is BPER's concentrated fund of hedge funds, with a focus on the 20 most attractive underlying funds as selected by BPER. It has overall a more aggressive mandate and should consequently offer the best potential performances in the case of a recovery in the equity markets.

*Key words: 'best of' fund, concentrated, higher risk profile, positioned for recovery*

All three funds offer excellent liquidity with monthly redemptions.

Other alternatives are available as well. Edmond de Rothschild Prifund  $\alpha$  Volatility concentrates on long short equity managers and Edmond de Rothschild Prifund  $\alpha$  Traders is largely allocated to global macro, CTAs and thematic funds. We have attached the latest monthly newsletters of all five funds and a general presentation on Banque Privée Edmond de Rothschild. We will be happy to discuss your choices in more detail.

### 3) Theta going forward

As mentioned at the beginning of this letter, Theta will fully concentrate on its business of managing customized portfolios for large investors. These individual accounts satisfy the increasing needs for control, customization and transparency. As part of the arrangement with BPER, Theta gets access to its extensive fund-selection and research platform. This provides us with a broad universe of hedge funds from where to focus on our core capabilities of portfolio construction and risk management. By working with one of the leaders in manager selection and due diligence in the hedge fund industry, we believe Theta will strengthen its position as a leading independent party in the Netherlands to provide hedge fund solutions to large investors.

Needless to say that we will always remain available for our existing investors for information, guidance and help regarding their hedge fund investments.

### 4) Practical consequences

Investors will be asked to provide us with their preferred option before January 20<sup>th</sup>, 2012. It is our opinion that switching into Legends XL, or otherwise into one of the Prifund Alpha Funds is generally the preferred option for investors. Participants that choose otherwise will receive distributions in cash out of the liquidation proceeds of the assets of Theta Legends. These participants need to be aware of the possibility of an extended liquidation timeline with a first payment in April 2012.

#### **Meeting for participants**

Theta will organize a meeting for participants on December 20<sup>th</sup> at 14.30 hours at the Amsterdam Hilton to provide further details on the arrangement with BPER and to answer any questions you may have. At this meeting several representatives of BPER, including the head of the investment fund department, will be present to discuss the various Prifund alternatives. Please let us know by e-mail, [info@thetacapital.com](mailto:info@thetacapital.com), whether you will be attending this meeting.

#### **What investors will have to do**

Investors will be asked to complete a form to indicate their preferred alternative. Please note that it is also possible to choose a combination of switching to several funds and/or cash proceeds. This form will be mailed to you shortly after the investor information meeting on December 20<sup>th</sup>. We will ask you to return the completed form by January 20<sup>th</sup>, 2012 the latest.

Please revert to the Questions & Answers section at the end of this letter for further specifics.

## 5) Final remarks

The year 2011 was a difficult one, for all investors. Still, we remain strong believers in the alternative way of investing, the talent of the investment professionals and the diversification benefits offered by hedge funds. Not only we, but most institutional investors share this belief, as demonstrated by their ever increasing allocation to the sector.

We believe we have found an excellent alternative for investors in the Theta Legends Fund by offering participants to remain invested through other, well-reputed and much bigger funds of funds. This way, improved liquidity and economies of scale are achieved for investors now and safeguarded in the future.

Finally, as partners in Theta (and co-investors in the fund with yourself), we want to express our gratitude for the trust you have given Theta and its dedicated team by investing in our fund. We assure you that the steps we are taking now do have your best interest as an investor as the primary driving factor.

We are fully at your disposal for any further information and advice.

Faithfully yours,

J.Tijo van Marle

Tjeerd J.J. de Vries

## **Questions & Answers**

### **Why is Theta transforming its business?**

We consider economies of scale to be critical for the fund of funds management side of our business. A sufficiently large and diversified investor base is necessary in order to provide investors with sufficient liquidity. BPER offers this scale to fund investors.

At the same time, we see a growing need amongst our investors for customization, transparency and control. Given Theta's 10 year experience in managing individual, tailor-made portfolios of hedge funds, we are in a unique position to fulfil this need. By using the support from BPER for the fund selection, Theta has the opportunity to combine full customization with access to the best hedge fund managers and research.

### **Why Banque Privée Edmond de Rothschild?**

BPER is both a pioneer and a leader in the field of alternative investments. They founded the first fund of hedge funds in 1969. Since then BPER has grown to become one of the most prominent players in the industry and enjoys strong relationships with many of the best hedge funds globally. This will prove to be a valuable asset for the Fund's investors switching into the Prifund Alpha funds as well as for Theta's client base of individual account holders.

### **Why now?**

Over the last 3 years, we have witnessed two important developments. One development is that size has become an ever more important criterion for investors. While currently our funds still have sufficient scale, we notice that investors have become wary of the reduction in size since 2008. We believe it is prudent to act timely and to avoid a situation in which investors will redeem their holdings only because the fund size has become too small. Size is important for access to underlying funds and most importantly, to offer sufficient liquidity to investors. The second important development is an increased need of hedge fund investors for transparency, customization and control. With our individual account offering and the relationship with BPER, we believe we are well positioned to answer to this demand.

### **Please provide a timetable for the reorganization**

#### December 1<sup>st</sup>, 2011

The Fund is closed for redemptions and subscriptions.

#### December 20th, 2011

Informational session at the Amsterdam Hilton at 14.30 hours to provide further clarification and to give the opportunity for investors to ask questions. Representatives of Banque Privée Edmond de Rothschild will be present to discuss the investment alternatives in further detail.

#### January 20th, 2012

Deadline for investors to indicate their preferences in the filled-out form.

#### January 21st, 2012

Date on which the Fund will enter liquidation. Investors that have opted to stay in the Fund will from that date participate in the liquidation and will receive periodic distributions as cash becomes available over time.

#### March 1st, 2012

Fund switches will be effected.

### **How are pending redemptions treated?**

Redemption notices received before December 1<sup>st</sup> will be paid out in the usual manner. Naturally, these participants have the option to withdraw their redemption and switch into Legends XL or one or more of the Prifund Alpha Funds. Redemptions notices received after December 1<sup>st</sup> are not accepted given the reorganization of the Fund; these participants have the choice of participating in the liquidation or switching into Legends XL or one or more of the Prifund Alpha Funds.

### **Describe the liquidation process of the Fund**

Theta commits itself to execute the transfer and liquidation in a smooth and optimal way. During liquidation Theta will maintain the characteristics of the portfolio as a balanced portfolio to the extent

possible and will maintain sufficient liquidity for currency hedging purposes. The expected distribution scheme is as follows: 45% by the end of April 2012, 25% by the end of July 2012, 15% by the end of October 2012 and 15% by the end of January 2013. Participants should keep in mind though that towards the end of the distribution, only a few holdings will be left and the portfolio volatility is likely to increase significantly.

#### **How does Theta Legends XL differ from Theta Legends?**

The portfolio of Legends XL is similar to Theta Legends, meaning that it contains the same underlying hedge funds with the same target weights. Small deviations may occur as a result of fund flows. Therefore the major difference between the two funds is that Theta Legends XL offers intraday liquidity through an exchange listing. A market is maintained through two market makers, and buy and sell order are typically executed at a 1-2% spread to NAV. Investors retain the option to redeem at NAV by giving normal notice to the fund. The notice period currently is 90 days, with a monthly redemption calendar. When BPER is taking over the management of the fund, this notice will be extended to 100 days with a quarterly redemption calendar.

#### **Is it expected that the Legends XL Fund will trade at a discount to NAV?**

No. This is typically avoided through the semi-open ended structure of the fund. While discounts in times of market stress may occur, our experience is that these are typically short-lived.

#### **When will BPER take over the management of the Legends XL Fund?**

Pending the necessary regulatory approvals, BPER is aiming to take over the management of the Legends XL Fund per April 1<sup>st</sup>. BPER has also the intention to maintain a liquid market in the Fund.

#### **What changes will BPER make to the fund after taking over the management?**

Aside from the change in redemption terms, BPER will propose to investors to allow for a maximum of 15 funds, compared to 10 funds currently, and for a minimum track record of 5 years, rather than the current 10 years. These changes are intended to provide the manager more room to control the risk profile of the fund, without changing the philosophy of the fund.

#### **What are the redemption terms of the Legends XL Fund?**

The Legends XL Fund offers intraday liquidity through its listing on the Euronext Amsterdam stock exchange. A small bid-offer spread applies. Additionally, investors have the option to redeem at NAV on a monthly basis with 90 days notice. It is the intention of BPER to change this notice to a 100 days notice and to change its frequency from monthly to quarterly.

#### **What are the fees charged for the Legends XL Fund?**

Currently, the Theta Legends XL Fund has a 1.25% management fee and a 5% performance fee over a hurdle of Euribor + 2%, but no high watermark. Once BPER has taken over the management, the conditions of the Legends XL Fund will be amended so that management fee will still be 1.25%, and the performance fee will be 5% with no hurdle. However, the fund will then have a high watermark.

#### **What are the redemption terms of the Prifund Alpha Funds?**

The first 12 months, investors that switch to the Prifund Alpha Funds will be in a separate share class with monthly liquidity and 95 days notice. During this period a 2% exit fee in favour of the funds applies. After the first year, the funds provide the following redemption terms:

- Edmond de Rothschild Prifund  $\alpha$  Diversified, Uncorrelated, Volatility: monthly subscriptions, monthly redemptions with 35 days notice, exit fee of 0.5% in favour of the fund;
- Edmond de Rothschild Prifund  $\alpha$  Traders: monthly subscriptions, monthly redemptions with 45 days notice, exit fee of 0.5% in favour of the fund;
- Edmond de Rothschild Prifund  $\alpha$  20: monthly subscriptions, monthly redemptions with 95 days notice, exit fee of 0.5% in favour of the fund. This fund has a longer notice period because of its longer investment horizon. While return expectations are high for this product, month to month fluctuations can be considerable. The longer notice is not a result of less liquidity in the portfolio.

### **What fees are charged for the Prifund Alpha Funds?**

Investors in the Theta Legends Fund that switch into Prifund  $\alpha$  Diversified, Uncorrelated, Volatility or Traders will pay 1.25% management fees, unless they qualify for the institutional class for which the management fee is 0.6125%. For Prifund  $\alpha$  Uncorrelated no performance fee applies. For the other funds mentioned above a 5% performance fee applies. For the Theta Legends Fund this is 5%, but only over a hurdle of Euribor + 2%. For Prifund  $\alpha$  20 a 1% management fee and a 10% performance fee apply. Performance fees are subject to a high watermark. Existing reallocation agreements will be taken over by BPER on a best efforts basis.

### **Can all positions be transferred to BPER?**

We assume yes. We will need to obtain oral/written confirmation from all the hedge funds in the Fund of acceptance of the transfer of ownership of participations to BPER in the case of a switch into one or more of the Prifund Alpha Funds.

### **What level of reporting is provided by Banque Privée Edmond de Rothschild?**

Five business days after month-end an estimated NAV is reported. By the end of the next month, the previous month's performance overview is reported, including a portfolio commentary. On an ad hoc basis letters will be sent out to investors for more in-depth discussion on specific topics.

### **How will Fund investors be serviced going forward?**

Both investors that are switching to the Legends XL Fund or the Prifund Alpha Funds and investors remaining in the liquidating Theta vehicles will continue to be serviced by Theta. We will make sure to provide the investors with any information needed, during and after this transfer process.

### **On what basis does Theta terminate the Fund?**

The termination of Theta Legends Fund is based on article 23.4 of the Terms and Conditions of the Fund, as further described in the Fund's prospectus (see [www.thetacapital.com](http://www.thetacapital.com)).

### **Will Theta Capital Management remain independent?**

Yes, Theta remains fully independent and there will be no exchange of shares.

### **Can I opt for an individual account, rather than a transfer or liquidation?**

Yes, if the conditions for such an account are met, the most important of which is size. Investors from EUR 5mm upwards qualify for an individual account, smaller amounts are considered on a case by case basis, for which prospective growth will be the predominant criterion. Participants opting for an individual account will have their pro-rata portfolio transferred in-kind into their segregated account. Please contact us if this would be of interest to you.

### **Explain the individual account offering**

In short, an individual account has the following characteristics:

- A discretionary investment agreement between the client and Theta;
- Full control over the portfolio which cannot be impacted by the actions of other investors;
- A portfolio of hedge funds constructed on the basis of an individual client's preferences;
  - Investment horizon, risk limits, target return, strategy limitations and more;
- Access at attractive terms to the best hedge funds in the world, leveraging off the relationship with BPER;
- Transparent and flexible reporting, customized to the needs of the investor;
- The possibility to include other asset classes in both portfolio construction and reporting.

For more information, please contact the Manager:

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