

PIPEs

PipeLine Investors, LP

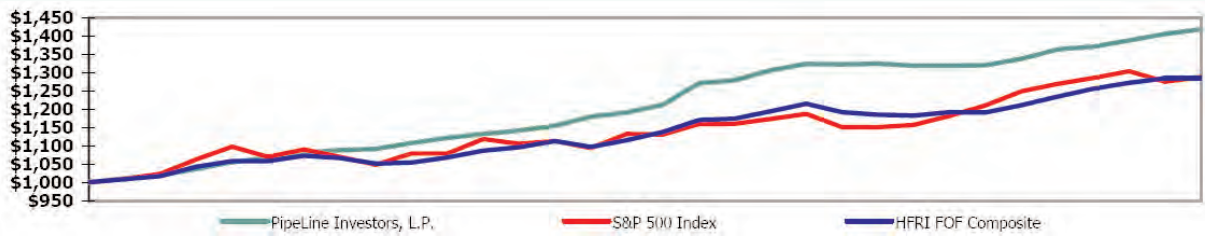
Focus: PIPE fund of funds and "PipeLine" kind of strategies (including collateralised mortgage obligations, asset based lending funds, etc.)

Fund's strengths: due diligence capabilities, PIPE (private investment in public equity) expertise

Fund's weakness: significant and sudden declines in liquidity in the US markets and/or pricing in small cap equities

Opportunities: the use of PIPEs as a means for public companies to raise capital has grown considerably over the past decade. Once a little understood strategy used by relatively few companies and investors, these privately negotiated transactions now offer a practical, more timely, and in many cases preferred, financing alternative for companies, regardless of their size or sector.

Threats: restricted number of PIPE investment vehicles; hedge fund lenders could be challenged if capital were to be readily available from other sources



Fund's performance vs. benchmarks, since inception - Sept.2004

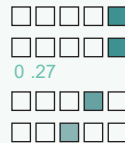
source: Sky Bell Asset Management, LLC

Risk Management

□ = low □ = low/moderate □ = moderate □ = moderate to high ■ = high

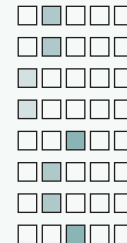
At PipeLine level:

- Expertise in identifying PIPE managers
- Expertise in constructing portfolio
- Avg. correlation of positions within the portfolio
- Concentration of investment risk
- Key man risk



As pertaining to underlying PIPE portfolios

- Short sales related risk
- Fraud/default related risk
- Regulatory risk
- Leverage risk
- Market risk
- Liquidity risk
- Counterparty related risk
- Key man risk



Performance Parameters

■ = insufficient ■ = adequate ■ = satisfactory ■ = good ■ = outstanding

- Avg. no. of positions currently in Pipeline: 7- 10 portfolios
- Efficiency in putting investor capital to work: 4 boxes filled (outstanding)
- Avg. length positions are held for: 12+ months
- Diversification achieved within portfolio: extensive relative to single managers with exposure to several hundred transactions
- Avg. annual correlation to: (>0.38 is high)
S&P 500 : 0.21
Russell 2000: 0.54
- Since inception, consistency in delivering targeted returns: 4 boxes filled (outstanding)

Outlook

↑ upside potential ↗ upside to range bound ↔ range bound ↘ range bound to down ↓ downside

- Barriers to entry in the PIPE space: expertise in - fundamental analysis, technical analysis; legal background in privately negotiated transactions and securities law ; a solid network to source transactions
- Scope for PIPEs →
- Scope for a fund of funds PIPEs ↗
- Threat of competition: fairly low
- Fund's ability to deliver targeted returns (conservative estimate) over:
 - Next 12 months ↗
 - Next 1-3 years ↗
- PipeLine tends to outperform: when US equity markets are down or flat, or small caps are in a bull market
- PipeLine tends to underperform: when small cap equity markets become illiquid for an extended period
- Max. capacity of assets under management: USD 200mn (currently AuM: USD 27mn)

Investment Insights

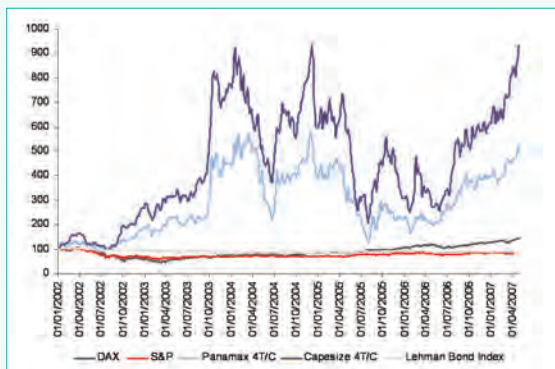
- Fund is targeted at : high net worth individuals, multi-strategy FoF, family offices
- Suited to investors looking for: upside potential with contained capital preservation
- To optimise returns, min. holding period: 3-5 years or one turn of a business cycle
- Restricted to: currently on shore only, but potential for an offshore structure
- Fund's base and other currencies: USD
- Fund's complexity for an investor: fairly high
- Fund's investment advisor Sky Bell Asset Management, LLC is registered with the SEC
- Transparency provided: high
- Awards/Ratings: 2005: Mar Hedge ranked PipeLine Investors in the Top 10 Performing Risk Adjusted Funds of Funds in the US

SHIPPING

Shipping related investment prospects... in discussion with Montan Alternative Investment's Philipp Sebbesse

Are shipping related investments unique? If so, what sets them apart from other assets classes?

Indeed, shipping related investments are unique. Firstly, shipping investments tend to show almost no correlation with other asset classes such as equity or bond markets *. Secondly, we believe, no other asset class reflects the global demand and original trade as accurately as the shipping industry does. As it is either directly or indirectly linked, the shipping industry benefits from all levels of production. Bulk carriers, for example, ship commodities such as iron ore which form the basis for steel production; or oil and coal in order to ensure the generation of energy. The volume of iron ore, coal and oil shipped by sea almost doubled over the last 5 years from 280m tons to 500m tons. Container ships, then, ship finished and semi-finished goods in standard boxes to their different destinations.



Source: Montan Alternative Investment GmbH, Bloomberg

How has investing in shipping evolved over time?

Over the past years shipping has transformed itself into an asset class. Today, there are more opportunities to invest in shipping than a few decades ago. In the past, shipping investments were confined to close ended funds. The product palette includes not only traditional instruments such as stocks and bonds, but have also seen the emergence of innovative investment products that are being specially structured (use of derivatives) to benefit from the growing shipping industry.

Which phase of the shipping cycle are we in presently? And why invest now?

One has to first distinguish between the different segments within the shipping industry.

From a historic price perspective, today's dry bulk market is exposed to relatively higher charter rates and ship prices. This is mainly driven by the significant growth that is being experienced by economies such as China and India which exhibit a strong demand for tonnage. In addition, containerisation of goods is a phenomenon that will continue over the next years - supported by global production, global sourcing and increasing shipping of semi-finished goods for price efficient production.

Forecasts by the IWF and the OECD forecast sustainable global growth - taking that a step further, we estimate global trade will increase even further - which in turn bodes well for a strong and attractive shipping segment. Especially for the dry bulk market (the relevant one when it comes to global demand) we anticipate continued strength in demand for coal, iron ore etc. from countries such as China and India. Unless those countries do not tentatively limit their growth, we believe shipping related demand will persist, probably not at those growth rates experienced over the last 2 years - but none the less, we expect to see solid developments over the next couple of years.

How investable is it as an asset class and what are the different investment opportunities, instruments, structures that are currently available to investors?

Compared to some years ago, shipping is an increasingly investable asset class and can be accessed via equities, bonds, hedge funds and index certificates among others.

• **what are the respective risks associated with these investments?**

Shipping industry- investments tend to be characterised by a high level of volatility combined with a higher degree of illiquidity – especially if one were considering direct investments in “ships”. The chart above showing the spot charter rates for dry bulk carriers illustrates this thesis. In addition, one can see this from the price development for the different vessels. From 1996 to 2006 new building prices for a Capesize dry bulk carrier rose by 60%, for Panamax dry bulk carriers by 40%.

• **what net annualized returns can one expect; and what is the minimum time frame one should consider in each case?**

This again is hard to say and depends on the different investment classes. A shipping stock investor could probably expect higher returns than if one were invested in a closed end fund that paid out an annual cash dividend. Based on a long term investment perspective, one could expect an average annualised return of 8% plus pa. from a “sound” shipping investment.

Shipping related investments are suited to investors looking for...

Asset/ portfolio diversification of their and for those who want to participate in and “profit” from global trade. As pointed out earlier, correlations with other asset classes is very low – as indicated by the table* below. We believe, in the case of shipping related investments, it pays to take a long-term rather than a short-term view on returns, as volatility will likely remain strong.

Correlation	Panamax Spot Index	Capesize Spot Index	Dax	S&P	Lehman Bond Index
Panamax Spot Index	1	0.97	0.18	-0.23	-0.78
Capesize Spot Index	0.97	1	0.20	-0.23	-0.78
Dax	0.18	0.20	1	0.75	-0.02
S&P	-0.23	-0.23	0.75	1	0.51
Lehman Bond Index	-0.78	-0.78	-0.02	0.51	1

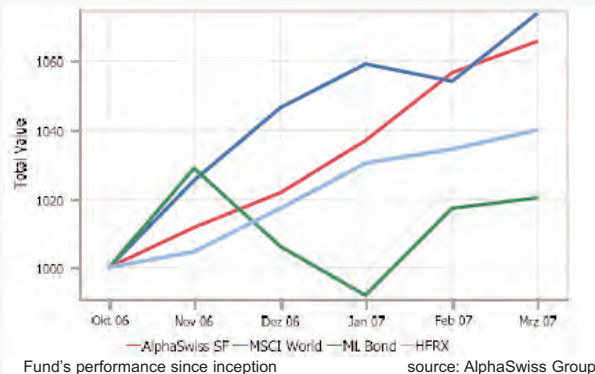
Source: Montan Alternative Investment GmbH, Bloomberg

Would you say barriers to entry in this space are high and are likely to stay high going forward? Elaborate.

That depends on how one invests. Barriers to direct investments in ships are very high - since the upfront investment is substantial. But on the other hand, these barriers came down significantly after several shipping companies had IPO's - which has helped make shipping related investing more liquid and accessible for those with an interest!

STRUCTURED FINANCE

AlphaSwiss Structured Finance Fund



Focus: the fund of funds offers risk controlled access to structured finance (asset backed loans and securities, credit arbitrage, PIPEs) investment opportunities

Strengths: competence in understanding and analysing the portfolio's underlying asset related risk

Weaknesses: better suited to those with a longer time horizon

Opportunities: portfolio diversification and a low correlation to traditional assets

Threats: depending on its severity, a credit crunch type of environment could pose a challenge to performance

Risk Management

□ = low □ = low/moderate □ = moderate □ = moderate to high ■ = high

- Avg. correlation amongst positions in the portfolios 0.06
- Diversification achieved in terms of collateral securing the loans □ □ □ □ □
- Ability to detect underlying managers' style drifts □ □ □ □ □
supported by the fund's proprietary multi-factor analysis
- Ability to "correctly" value and gauge liquidity of the underlying asset □ □ □ □ □
- Ability to track underlying managers' ability to put cash to work □ □ □ □ □
- Ability to detect fraud ;shifts in credit ratings □ □ □ □ □
systematic and disciplined due diligence and continuous monitoring
- Importance allocated to reviewing the contingency clause of loans □ □ □ □ □
- Ability to recover full value of collateral in case of a default □ □ □ □ □
- Currency related risk □ □ □ □ □
- Counterparty risk □ □ □ □ □
- Market risk □ □ □ □ □
- Leverage used (in line with industry avg.) □ □ □ □ □
- Risk of concentration/crowding: □ □ □ □ □
- Key man risk □ □ □ □ □

Performance Parameters

■ =insufficient ■ =adequate ■ = satisfactory ■ = good ■ = outstanding

- Positions currently in the portfolio 20 single funds
- Ability to negotiate capacity with underlyings ■ ■ ■
- Ability to secure loans with varying maturities ■ ■ ■ ■ ■
- Ability to sustain performance in a falling interest rate environment ■ ■ ■ ■ ■
- Performance to be expected in a period of increasing defaults rates a decline in the resale value of collateral to below the LTV rate; a blow-out in credit spreads ■ ■ ■
- Avg. correlation to MSCI World Index +0.21
- Avg. correlation to Merrill Lynch World Agg. Gov. Index +0.01
- Avg. correlation to HFR Diversified FoF Index +0.33
- Since inception, consistency in delivering targeted returns ■ ■ ■ ■ ■

Outlook

↑ upside potential ↗ upside to range bound ↔ range bound ↘ range bound to down ↓ downside

- Outlook on the scope of investing in the a structured finance for ↑
- Scope for AlphaSwiss Structured Finance Fund ↑
- Barriers to entry: significant - expertise in portfolio and risk management, due diligence, structured finance; investment focus; network
- Your outlook on the fund being able to deliver the targeted returns over the next:
 - 1 year fairly high
 - 3-5 years moderate (currently risk premiums are attractive - but over time, are expected to slide from their present 12% to 10%)
- Going forward what do you envisage as the threats and challenges for the fund
Degenerating macro economic environment with slightly rising default rates and spread widening/volatility
- How is the fund positioned for the above likelihood
The fund is overweight relative value strategies with negative sensitivities to default and spread widening
- Under what circumstances is the fund likely to outperform: low default rates and low spread volatility
- Under which circumstances is the fund likely to under perform: the simultaneous occurrence of high default rates in different areas
- What is the maximum capacity of AuM for the fund: USD 500 mn

Investment Insights

This fund is targeted at: institutional investors, pensions, endowments, family offices, long-term sophisticated investors

Those looking for: stable returns of around 10% -12% pa with low volatility < 5 p.a., prepared to accept less liquidity

To optimise returns recommended holding period is: 3-5 years

Geographic restrictions: fund is available to non - US persons

Currencies this fund is available in: USD and EUR (others negotiable)

Fund's complexity for an investor: above average

Liquidity provided: monthly, with 90 days notice

Transparency provided to investors: high

Registered with: the fund's advisor, AlphaSwiss Asset Management, is a member of VQF (Verein zur Qualitätssicherung im Bereich der Finanzdienstleistungen), an official self regulatory organisation - authorized by the Swiss government

ART: IMPRESSIONISTS AND POST-IMPRESSIONISTS

A Square's Art Series with Philip Hoffman.¹ - III

Focus: Impressionists and Post-Impressionists

Description: 'Impressionism' is the term coined for a style of 19th Century French painting, which was reflected in the work of a number of artists based around Paris. Painted in a distinctive style, the artists used loose and visible brushstrokes, and laid emphasis on nature, light and time in their colourful compositions. Instead of painting traditional, realistic detail from inside their studios, these so-called 'deviant' painters took their practice 'en plein air', to capture the transient effects of nature and people within a natural setting. Poorly critically received at the time; these artists are credited with changing the nature of painting, creating an entirely new vision of their world and originating a style that is visually appealing and one of the most widely recognised today. Widely known Impressionist painters include :

- Monet, Renoir, Degas, Pissarro, Sisley, Cezanne and Morisot

Their techniques were elaborated upon and evolved under the painting of the Post-Impressionists, who included:

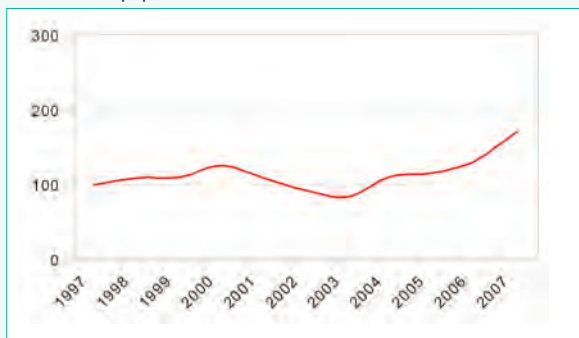
- Gauguin, Seurat, Toulouse-Lautrec and Van Gogh

• From 1990 through to 2006, records for the two most expensive paintings ever sold were held by - Post Impressionist and Impressionist paintings: The most expensive being [Van Gogh's](#) 1890 Portrait of *Dr. Gachet*, which sold at Christie's New York in May 1990 for USD 82.5mn, and [Renoir's](#) 1876 *Bal au Moulin de la Galette, Montmartre*, which sold two days later at Sotheby's New York for USD78.1mn. Both were purchased by the same Japanese executive, Ryoei Saito, capping off what has since been termed the 'Impressionist Bubble'.

The 'Impressionist Bubble' started in the late 1980's and peaked in 1990. The Japanese were buying into Impressionist and Post-Impressionist art, at over-inflated prices and used these paintings as tax write-offs, in what was essentially a money-laundering scheme. Having driven up the prices of these paintings, the value of the Impressionist market then dropped dramatically, when the Japanese economy crashed. Many Impressionist paintings that had been purchased as part of this scheme are still not worth their full value on the market, carrying with them the taint of their once over-inflated price.

Strengths of the Impressionist and Post Impressionist markets:

• The market has long recovered from the 'bubble' and top prices are commanded for works of excellent provenance, condition and beauty, by the most popular artists



steadily increasing in value

- Like the Old Master market, this market also works on a simple equation of supply and demand.
- As more works of high quality are purchased by museums and institutions, there are less and less quality works on the market - and hence those that remain witness steady price gains
- Globally, Impressionist and Post Impressionist artists are brand names and bring in more visitors to museums than shows by any other genre of artists
- Impressionist and Post Impressionist paintings still convey a certain prestige, as the artists are easily recognisable
- Prices for these paintings of great beauty and historical importance are still considerably lower than those of Contemporary artists, who have since eclipsed Impressionist and Post Impressionist artists as the market-record holders
- Artists who were once considered 'second tier' Impressionists and Post Impressionists are now being significantly re-evaluated and their works are

• This market has shown steady growth over the past decade, as illustrated by the graph above (courtesy: Dr. Rachel Campbell, Assistant Professor of Finance and an art market analyst at Maastricht University)

Graph shows: 100 EUR invested in the Impressionist market would have a value of 170 EUR as of March 2007 (Data source: Art Market Research)

Weaknesses of the the Impressionist and Post Impressionist Markets:

- Works of the highest quality tend to remain off the market and are on display in museums
- Very rarely do 'fresh' works come to the market and when they do, they command top prices
- Works that had been purchased as part of the 'bubble' by the Japanese have still not regained full market value
- Condition and title are very relevant issues and must be taken into consideration in all purchases and sales
- Like the Old Master market, these markets move slower than the Contemporary market, with fewer globally important auctions and art fairs. As with Old Masters, the TEFAF Maastricht art fair is still the most important global art fair for these markets and another important fair is the Palm Beach Fine Art & Antique Fair.
- Collecting Impressionists and Post Impressionists has lost much cache as Contemporary art is deemed trendier. As the market for the former moves at a slower pace, a long-term buy and hold strategy is crucial to realise potential price gains in a collection

Opportunity:

- De-accession of important Impressionist and Post Impressionist works from museum collections that need funds to purchase the ever more expensive works by Contemporary artists
- Discovery of an unknown or lost work by a master or return to the market of a top painting - since the death of Ryoei Saito in 1996 the exact whereabouts of the Portrait of Dr. Gachet are unknown, and the return of such an important painting to the market would command a top price
- As art historians and museums start to re-evaluate the artists who were less famous during their lifetimes - a portfolio of 'second tier' Impressionists and Post Impressionists may increase in value as works by top tier artists are scarce
- Adding Impressionist and Post Impressionist art to a broader art portfolio, including Old Masters, Modern Art and Contemporary adds to diversification
- This market is more solid than most others

Threat:

- An art market crash - because of the previous 'bubble' this genre is not highly speculative. The Japanese, for example, have yet to re-enter any

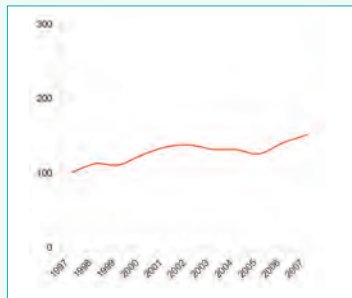
ART: IMPRESSIONISTS AND POST-IMPRESSIONISTS

area of the art market

- A financial market crash, although it should be noted that art has a very low, even negative, correlation to other traditional asset classes

Risks involved:

- Theft/ Damage/ Provenance/ Title issues are more important than in any other sector
- Condition issues are common and works need to be inspected by leading experts
- Provenance and title need to be carefully obtained, as works could potentially be 'Nazi war loot', or were previously owned in Japan
- The Art Loss Register is crucial to determine if something has a claim or has been lost or stolen
- Authentication of a newly discovered work can be near impossible
- As with all sectors of the market, getting caught in market inefficiencies, i.e. transaction costs via galleries and auction houses
- The hold rate could be longer than expected owing to slower market movements



Performance:

- With proper due diligence and market experience, the above risks can be minimised and/or avoided

• Adjacent graph depicts:

For example, Dr. Rachel Campbell tracked the market of [Pierre Auguste Renoir](#) (French 1841-1919), one of the most well-known Impressionist painters

On average, 100 EUR invested 10 years ago in 1997 would have a value of 150 EUR in March 2007 (data source: Art Market Research)

Forecast:

- For Impressionist and Post-Impressionist works of great quality, provenance, and condition, painted by the most important artists - will always bear potential as an investment
- Due diligence and expertise are crucial to determine this.
- While supply of good works endures these markets should continue with steady growth
- A Monet or a Renoir on a wall will always be equated with a certain social status and as long as there is supply on the market, the paintings will retain strong value
- As a new wave of buyers enter the market, such as from China, Russia and India, money will continue to be spent on the opportunity to acquire such paintings

1. Philip Hoffman is founder of The Fine Art Fund, which is still the only global art fund of its kind, and has since expanded into The Fine Art Fund Group Ltd, which consists of The Fine Art Fund I, The Fine Art Fund II, The Chinese Fine Art Fund, The Indian Fine Art Fund & an art advisory arm, FAIR (Fine Art Investment & Research)

(*All prices are approximate and if sold at auction include the buyer's premium)

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