

## WIND RELATED INVESTING

### ABN AMRO WIND TOTAL RETURN INDEX (EQUITY) – OPEN END CERTIFICATE

**Focus:** • The index is a total return index, designed to reflect the performance of the securities of companies involved in the production of energy from wind or distribution of wind generators or services to the wind industry as determined by the index calculator – Standard&Poors

- Only ordinary or preference shares, units, American Depositary Receipts or Global Depositary Receipts of such wind companies are eligible for inclusion in the index
- The index components will, initially and on each re-weighting date, be modified Market capitalisation weighted, with a max weight of 20%.
- The index shall comprise at any time the min number of index components and ceases to be calculated if there are less than 6 qualifying share companies.
- Index selection criteria:
  - Authorized asset
  - Market capitalization > EUR 75 mn
  - Minimum liquidity EUR 500,000
  - The company which is the issuer of the security must derive at least 50% of its revenues from producing energy from wind or distributing wind generators or servicing the wind industry
- Index value will be calculated and published once a day by the index calculator (launch date: 5 March 2007)

**Strengths:** • S&P's expertise in index construction; accessible, liquid, thematic exposure to wind-related (eco-friendly) technologies

**Weaknesses:** • Underlying index and its components have and can witness sudden, sporadic spikes in volatility

**Opportunities:** • Wind energy is booming around the world, with an average annual growth of over 28% in the last 10 years.

• "... wind can supply more than 16% of global electricity needs by 2020. This would save 1.5 billion tonnes of CO2 emissions globally in 2020 and make a major contribution to fighting climate change",...

**Threats:** • Sensitivity to political and legislative developments

• Other sources of alternative energy achieve higher energy efficiency



Index's comparative returns (EUR, Index's comparative returns (EUR); 7.02.05-11.06.07)

Source: ABN AMRO Markets

#### Risk Management

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

• Certificate level:

• Market risk :

□ □ □ □ □

• Credit risk: ABN AMRO Bank N.V. (Senior Long Term Debt Rating: Moody's Aa2, S&P AA-)

□ □ □ □ □

• Liquidity risk:

□ □ □ □ □

• As market maker, ABN AMRO Bank N.V. intends (but is not obliged) to maintain a daily secondary market throughout the life of the product with a maximum spread of 1.5% (subject to normal market conditions).

• Termination risk:

□ □ □ □ □

• Underlying's sensitivity to:

• Valuation risk:

□ □ □ □ □

• Volatility risk:

□ □ □ □ □

• Currency risk: (exposure as of March 5 07: EUR: 51.99%, DKK: 23.2%, GBP: 14.36%, AUD: 8.95%, USD: 1.5%):

□ □ □ □ □

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#### Performance Parameters

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- No. of securities comprising the index currently: 9 (min required=6)
- Performance of index since inception: +29.11% since 5 March '07 (as of June 11'07)
- Avg. P/E ratio of securities: 2006: 68, 2007: 56, 2008: 43
- Correlation of Index to:
  - The S&P500: 0.22
  - Bloomberg World Alternative Energy Index: 0.32
- Diversification:
  - Geographic: sectoral structure skew towards Europe
  - Market capitalisation: majority is small cap
  - Sub sectors: wind: turbines, generators, farming assets
- Annual expense ratio: 1% management fee, deducted from the value of the certificate on a daily basis

#### Outlook

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

- Barriers to entry: index structuring and calculating expertise
- Outlook on investing in this sector:
  - Index underlying comprise niche players that can potentially become profitable industrial companies
  - Need for alternative energy sources due to higher oil prices and/or scarcity of fossil fuels, climate change (search for cleaner energy sources),
  - M&A activity to reach critical size for serial manufacturing
- Scope for a certificate such as ABN AMRO's:
  - Threat posed by competition: low
  - Likelihood of occurrence & threat posed by the min. index component requirement not being satisfied: low
  - Certificate shows a relative outperforms when:
    - Underlying(s) beat market expectations, are awarded new contracts, reveal expansion plans
    - Sector receives political backing; rapid end-user acceptance
  - Certificate could show a relative underperformance if: other sources of alternative energy achieve higher energy efficiency

#### Investment Insights

- Certificate is targeted at: broad based investment universe
- Recommended holding period to optimise returns: min.12 months
- Certificate's base currency: EUR; other currencies it is available in: CHF
- Listed on: SWX
- Fund's complexity for an investor: simple
- Transparency provided to an investor: high

## VINTAGE CARS

### Ferrari Leggenda e Passione Sale

#### How much did the car cost when it was first sold?

The 330 TRI/LM was built strictly for racing with an untold original cost. Other used racing Ferrari's of that time may have sold for as little as a few thousand dollars after their campaign.

#### When did it first go to auction and at what price?

The first auction for the 1962 330 TRI/LM was at RM's Monterey, in California, 2002 when it was sold for a record USD 6.5 mn.

#### If it went to auction again, after "Leggenda e Passione", does it have the potential to topple its acquisition price of USD9.3mn?

Yes. A car with this provenance and documented history will continue to rise in value. It is one of the most important Ferraris ever produced.

#### What would cap the upside? Or do you believe the sky is the limit?

The sky is the limit!

#### How do you actually "value" such a car? Would you say the price is inflated - because a buyer would acquire it at all costs?

The value of a car like this is established based on years of experience RM has acquired by closely following market movements and price developments. We then compare the car to others of similar value and rarity such as the 1960's Ferrari GTO.

#### At what point would you personally think it is "over valued"? Why?

Like the art market, there is no point at which a car like this is "overvalued" as there will always be a demand for the "great masters", such as a Picasso or Van Gough. The important Ferraris were produced in limited numbers; hence especially the early racing models will continue to increase in value and desirability.

#### From an investment perspective, is it ambitious to assume, that vintage Ferraris represent a better investment opportunity as opposed to another marque. Or does asset appreciation, revolve around a "specific" car.

Ferrari has always been the most recognised sports and racing car marque due to their desirability and accomplishments on the track. However, there are many other sports and racing marques with similar aspects that represent good investment potential - such as early Alfa Romeos, Maseratis and Bugattis to name a few.

#### From a drive perspective, which has been one of your favourites? And how much has it appreciated by when compared to annualised gains made by a Le Mans winning 1962 Ferrari 330 TRI/LM Testa Rossa ?

It is difficult to pick a favourite as we see so many great cars come through our doors and each one has a different appeal and style. A Shelby 289 Cobra is one favourite and has appreciated considerably (it could sell between USD200,000 - 300,000 depending on rarity, condition, etc) since the late 1960's when they could be purchased for a few thousand dollars.

Top sellers of the memorabilia collection from Ferrari's archives were a 1:2 scale model of a F2004 race car used for wind tunnel testing that drew a bid of USD66,800 and an original Formula 1 steering wheel used by world champion Michael Schumacher during the 2005 racing season which brought USD85,387. Memorabilia values tend to follow the collector car market, but are mostly purchased as décor or to create ambience in one's garage. Like cars, some of the rarest items in original condition will continue to be great investments.

Setting several world records the "Ferrari: Leggenda e Passione" was highlighted by the exceptional USD9.3mn sale of the incredible Le Mans winning 1962 Ferrari 330 TRI/LM Testa Rossa (Chassis 0808) that was piloted to victory by world champions Phil Hill and Oliver Gendebien - one of the most valuable and important Ferraris ever offered at auction.

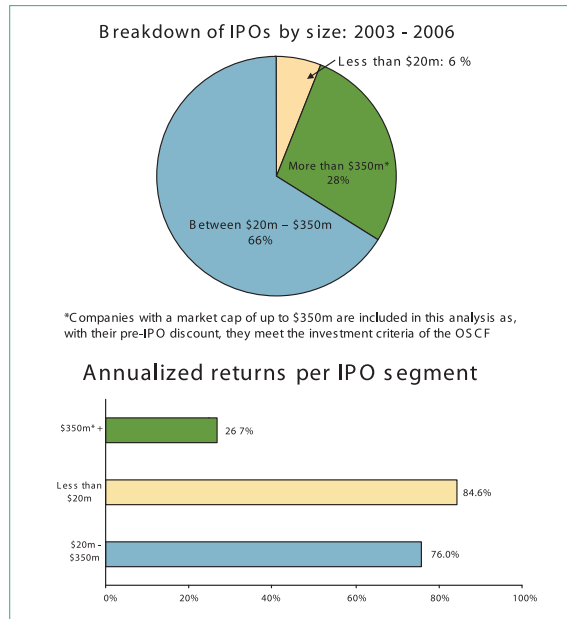


Le Mans winning 1962 Ferrari 330 TRI/LM Testa Rossa  
Source: RM Auctions Inc.

#### Canadian based RM Auctions in association with Sotheby's, sets seven new world auction records

- 1953 340/375 MM Berlinetta Competizione (USD5.8 mn)
- 1970 512 S Sports Car (USD3.6 mn)
- 1966 Dino 206 SP (USD3.3 mn)
- 1953 340 MM Competition Spyder (USD3.1 mn)
- 1971 Daytona Spyder (USD1.4 mn)
- 1966 275 GTS (USD532,000)
- 1985 288 GTO Prototype (USD693,000)

## HYBRID



The fund targets the most profitable IPO segment  
Source: Oceanic Small Cap Fund

## OCEANIC SMALL CAP FUND

### Focus:

- A hybrid vehicle that invests in small, high growth shipping and energy companies which are preparing to be introduced to the stock markets as well as existing companies which are listed on "junior" markets or which are listed but not regularly traded and in those that lack the immediate liquidity and market size to be included in many portfolios
- Investment style: opportunistic
- Investment approach: private equity

### Strengths:

- Sector expertise and experience; (consistent analytical approach - garnered from managing 2 other funds)
- Good network of industry and broker contacts (deal exposure)

### Weaknesses:

- Because of the fairly illiquid nature of private equity investments- better suited to investors with a long term outlook; capacity constrained
- Return on invested capital (ROIC) will eventually come down to normal levels, but the Asian growth and demand for commodities is likely to make this an extended cycle

### Opportunities:

- Small cap IPOs provide potential for exceptional returns in excess of those generated by larger cap companies in the same sector
- High returns on invested capital arise from Asian growth and demand for energy and shipping
- Long term trends in transportation and easily accessible energy with a premium on innovation is expected to continue for the life of the fund (4 years) and beyond

### Threats:

- Global slowdown affecting both shipping and energy sectors over an extended period

## Risk Management

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

- Major risk: Global slowdown affecting both shipping and energy sectors over an extended period
- Managed using the following hedging techniques :-
  - Investee company produces a commodity or shipping freight: hedging = commodity+ freight hedging
  - Index hedging into a suitable basket of stocks where the exposure to a particular sector is deemed to be excessive
  - Relative value pair trades of pre-ipo investments against similar companies that already are in the public domain
- Expertise in identifying attractive opportunities: □ □ □ □ ■
- Expertise in pricing and valuation of equities: □ □ □ □ □
- Expertise in structuring private equity deals: □ □ □ □ □
- Access to deal flow: □ □ □ □ ■

- Threat posed to underlying owing to "non performance" - the need to raise further equity/ time lags in realisation: □ □ □ □ □
- Threat posed by default/fraud: □ □ □ □ □
- Sensitivity of underlying to market disruptions such as oil shocks, etc: exists, but evened out owing to their long term investment horizon
- (Pvt buyout before listing is effectively seen by the fund as an opportunity)
- Liquidity risk: pvt equity investments, however 40% can be in OTC companies
- Valuation risk: □ □ □ □ □
- Leverage related risk: □ □ □ □ □
- Key man risk: □ □ □ □ □

## Performance Parameters

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

- No. of positions: 25 positions at any given time
- Efficiency in putting investor capital to work: in order to avoid a liquidity mismatch - the fund is following an instalment intake approach
- Diversification:
  - Global: not more than 33% in emerging markets
  - Sectors: shipping, oil services, energy and alternative energy
  - Composition: Pre-ipo stocks: < 67% gross assets-up to 20% in planned exit
- Instruments: equities: 80-90% and commodity; freight, index futures 10-20%
- Avg. holding period 18-24 months
- Ability to sustain annualised targeted performance in:
  - Up, down sideways trending markets : ■ ■ ■ ■

## Outlook

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

- Barriers to entry: a combination of pvt equity structuring expertise and sector analytical skills
- Outlook on investing in the space: ↑
- Fund's ability to deliver returns: high
- Fund shows relative out performance: Best if period of low valuations over the 1st 12 months of the fund when it gets invested, followed by a
  - Strong IPO market for the next following years
  - Worst, if a global slowdown affected both shipping and energy sectors over an extended period

## Investment Insights

- Fund is targeted at: HNWI, institutional investors, pension funds
- Current AuM: USD 56mn
- Targeted AuM: USD 200mn
- Recommended holding period to optimise returns: 4 years (life of the fund)
- Funds currency base: USD
- Geographic restrictions: none
- Funds complexity for an investor: moderately complex
- Transparency provided to investors: fairly high

## ASSET FINANCE

### Systematic Absolute Return's (SAR) Survey Findings



**Fabrizio Ladi,**  
Managing Partner SAR

**Fabrizio Ladi, a managing partner and member of the fund's investment committee discusses some of the recently released survey's findings...**

#### From your perspective as an allocator in the asset finance space, what has been the most surprising survey revelation

We are pleased with the level of responses received and with the interest shown by the 58 survey participants. We were also pleasantly surprised to see how aware and well informed the respondents were. Participants included institutional investors as well as sophisticated investors from the US, Canada, Australia, Switzerland, the UK and other EU member states.

#### From an asset finance perspective, how do you define tail risk? How do you manage and mitigate this risk in your fund? Do you believe investor concerns in this context are unfounded?

When compared with other hedge fund strategies, there is no real difference in how tail risk is defined for the asset finance space. A closer look at the tail events in certain option arbitrage strategies, tend to show a similar profile - high Sharpe ratios, no negative months, uncorrelated returns - until a tail event strikes. To make my point, it is the cause(s), not the structure of the outcome that tend(s) be the real differentiator.

A change in accounting standards (the introduction of the new Financial Accounting Standards Board (FASB) fair value rule slated for late '07) or the defaulting of a large loan in a portfolio, or a change in rating standards, are all examples of potential causes that could trigger a tail event in an asset finance hedge fund.

Hence we believe the steady, low volatility return profiles of asset finance funds do not reflect truly, the risks that are embedded in the asset finance portfolios. These risks are usually operational and not market risks. During our evaluation process, whether on-

going or initial, we focus on the operational and valuation aspects. We therefore focus on how portfolios are priced; on how the collateral is valued and what recovery rate is expected in case of default. This last aspect is very important in the context of asset finance funds. If the loans are appropriately backed by hard assets - we may experience some volatility in case of a tail event - but the funds will, over time, foreclose on the assets that backed the loans and recover value. Usually due to over-collateralisation, recovery rates tend to be high. This also calls for well honed negotiation and structuring skills to ensure that the fund is always in a privileged position to claim assets.

We believe investor-concerns with regards investing in asset finance are well founded - but that they are actually no different from those applicable to other niche strategies: It is not advisable to invest in any unique strategy without understanding fully the risks involved.

#### 30 % of the survey's respondents considered ABL as the most important strategy. Why do you think ABL strategies emerged as the most favoured in this pool?

Yes, within the respondent sample, ABL was most preferred amongst the asset finance strategies. It was followed by PIPEs, ABS and ABI. At the tail end of the sample were CDO's and MBS.

In our opinion the steady, uncorrelated, positive returns offered by ABL strategies, explain the survey participant's preference. One must also bear in mind that these strategies are comparatively easier to understand than the others that feature in the survey sample.

I feel comfortable stating that, investor understanding and their comfort level achieved in investing in ABL strategies is comparable with that achieved by long short (L/S) equity strategies. No wonder 70% of the hedge fund money is invested in L/S strategies - despite the high and expensive beta involved.

#### Drawing on your experience: are PIPE strategies "divisive" ... why or why not?

In our survey, PIPEs ranked second at the mean preference level, it was also the most disputed and polarised strategy among participants. While 22% assigned PIPEs a high preference level of "1", 33% assigned it the least preferred score of "5". This, despite the size of this market and even though individual

deals are getting larger, and that the operational quality of the players is improving. The space remains relatively small and is very competitive, with managers often fighting for deals amongst each other.

In addition to the headline risks, PIPE strategies may be exposed to some hard to quantify regulatory risks, as well as possible conflicts of interests between the fund managers and its investors. PIPEs are therefore "out-of-bounds" for some investors.

We are also aware that some allocators find the returns so appealing, that they invest in PIPEs and report their positions as convertibles arbitrage to avoid the headline risks.

Once again it is paramount to understand the valuation and liquidity of a PIPE manager's portfolio before assuming that risk.

#### The risk/reward potential offered by MBS and ABS relative to other AF strategies?

MBS and ABS provide a different risk reward profile to other asset finance strategies owing to the liquidity that some of these securities enjoy on the regulated markets that serve them. Obviously some can be very volatile and sensitive to changes in ratings and credit spreads. It was interesting to note that MBS emerged as the least favoured strategy even though the survey was carried out before the sub-prime woes struck.

#### Key challenges faced in constructing an efficient portfolio in the asset finance space

The key challenge is the valuation of the portfolios; it is paramount that the allocator has access to expertise to understand fully the practices and methods used to calculate the fair value of the assets that constitute each single portfolio.

#### This features in your recent newsletter: "If it be not now, yet it will come: the readiness is all". why did you choose this quote?

This statement is relevant to investing in any strategy, not only to asset finance; for we believe it is never the obvious risks that undo assets managers but the ones we can not see or even imagine. We acknowledge this and hence it finds reflection in our style of asset management.

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