

FINANCIAL FIX: STILLWATER NEW FINANCE FUND

Focus: Asset backed lending: real estate, inventory, commodity, receivables, insurance and service fee rights -backed, among others. A minority of the portfolio includes asset backed securities (ABS) strategies such as CLOs, CMOs, CDOs, specialty finance etc.

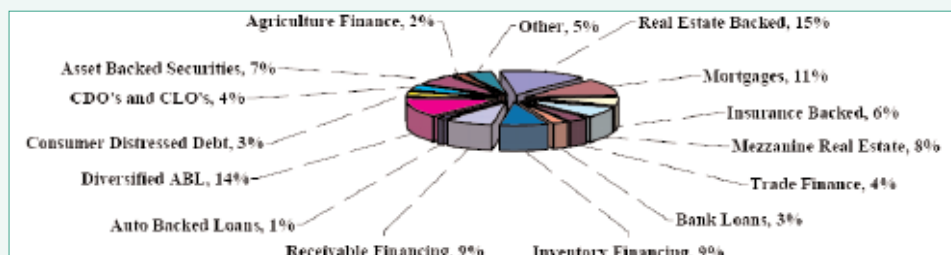
Targeted annual returns: 9-11% and annualised volatility 3% or lower

Strengths: 10 years of investing, experience in the asset backed space; the fund has had no negative months since its inception

Weaknesses: fairly illiquid

Opportunities: the emergence of more ABL and ABS managers and the increase in credit risk transfer from bank balance sheets to hedge fund.

Threats: Capacity constraints among existing managers; liquidity credit-crunch type/recessionary environment could be a challenge



Fund's Portfolio
(Source: Stillwater Capital Partners)

Risk Assessment

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

• Avg. correlation among managers in the portfolio	□□□□□	• Ability to detect fraud	□□□□■
• Diversification achieved in terms of collateral securing the loan	□□□□■	• Importance allocated to: reviewing the contingency clause of loans	□□□□■
• Ability to detect underlying managers' style drifts	□□□□■	• Ability to recover full value of collateral in case of a default	□□□□■
• Ability to "correctly" value and gauge liquidity of the underlying asset	□□□□■	• Currency risk	□□□□□
• Ability to detect and track underlying managers ability to put cash to work	□□□□■	• Key Man risk	□□□□□
		• Risk of eroding returns	□□□□□
		• Leverage used	□□□□□

Performance Parameters

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

• Underlying no. of managers in portfolio	= 50	• Returns that can be expected in a period of increasing defaults (LTV% = 75% or less)	■ ■ ■ □ □
• Access to deal flow	■ ■ ■ □ □	• Avg. annual correlation to equities	negative
• Ability to secure loans with varying maturities	■ ■ ■ □ □	• Avg. annual correlation to bonds	negative
• Ability to perform in a rising, falling and sideways trending market	■ ■ ■ □ □	• Avg. annual correlation to hedge funds	low
• Ability to sustain performance in a falling interest rate scenario	■ ■ ■ □ □	• Since inception, consistency in delivering targeted annual returns	■ ■ ■ □ □

Outlook

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

• Fund's outlook on investing in the ASL space	↗	• Barriers to entry: extensive knowledge and expertise in a specific niche market is necessary. Significantly more labour intensive, due diligence oriented and "hands on" than traditional hedge fund strategies
• Peer group perception of investing in the space	↗	• Do ABL investments display cyclical behaviour: no
• Fund's ability to deliver targeted annual returns: over the next 1 year	↗	• Conditions for the fund to outperform: approx. 25% is allocated to ABS managers - their contribution to performance could raise the fund's targeted performance
over the next 3-5 years	↗	• Max. capacity of the fund (AuM): USD500mn

Investment Insights

• Target audience: HNWI, institutional investors	• Liquidity provided: 12 month lock up
• Level of complexity: low	• Transparency provided: fairly high
• To optimise returns, recommended avg. holding period min. 12 months	• Fee: 1.5% pa management fee; incentive fee: 10% - subject to high water mark and 90 day TBill hurdle
• Geographic access: global	• Investment manager/fund registered with: SEC
• Base and other currencies the fund is available in: USD	• Rankings: MARHedge 2005,2006 :a top-10 risk-adjusted fund of funds
• Fund offers: consistent "absolute returns" and low volatility	