

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.

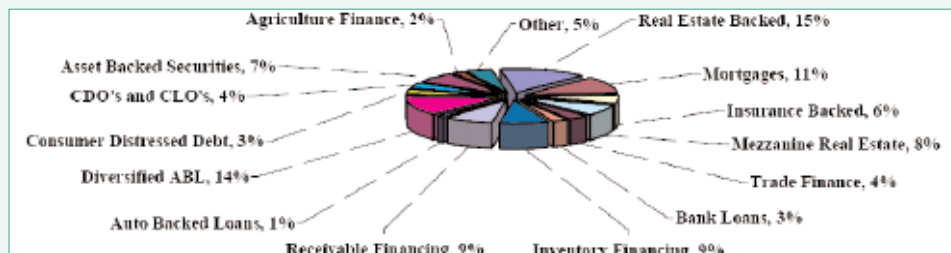
Targeted annual returns: 9-11% and annualised volatility 3% or lower

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	

FX CHECK

Seppo Leskinen, SEB Merchant Banking Head of Hedge Fund Services , Global Foreign Exchange shares his views on why 2006 was such a tough market environment for FX managers and more...

The FX market is one of the most efficient - how then do managers still generate lucrative returns?

Not all participants in the foreign exchange market are profit seeking organisations. Typically central banks, corporates that need to hedge foreign payments and tourists do not or cannot maximise their profits. Naive strategies demonstrate that phenomena such as forward rate bias exist, and that they are profitable. Skilled managers exploit such opportunities to develop lucrative return strategies.

Are FX managers exposed to cycles?

There are clearly some strategies that are sensitive to certain market environments. Typically trend following strategies will not operate in non- trending markets. Very recently we saw carry strategies struggle when the JPY appreciated.

Which phase of a cycle are we in now?

One can identify the occurrence of various types of foreign exchange market conditions such as high and low volatility, trending or non-trending markets. At present the market is in a low volatility and ranging state.

At which phase(s) is it hardest for a FX manger to perform? Why?

Are there other FX managers that would thrive in such in an environment?

A majority of managers do find it difficult to perform in ranging and low volatility market conditions.

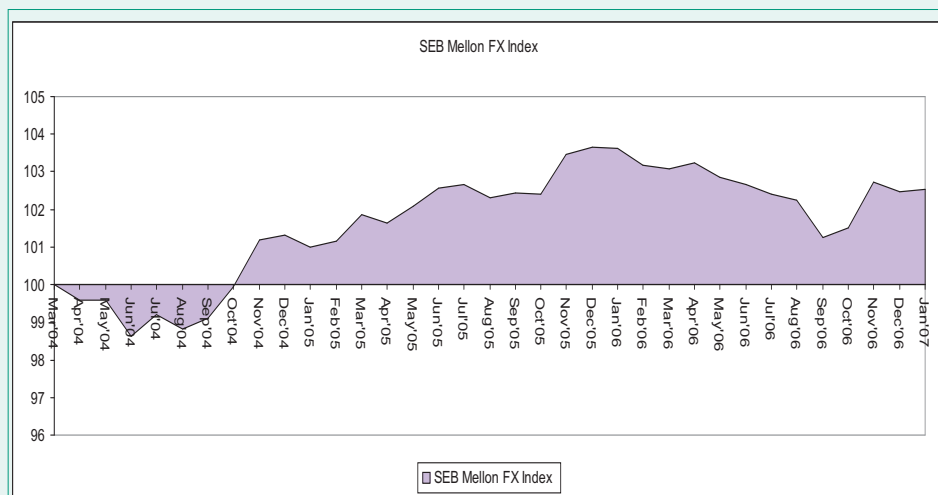
But then again, there are always good performing managers regardless of the market conditions. Discretionary managers and some short-volatility systematic strategies fall in this category.

Was 2006 an unusually difficult year for FX managers? Why?

We have some 85 currency managers on our platform FX MAP and we saw a negative result of 1% collectively. 2006 was the poorest currency performance year we have tracked thus far.

Which managers were positioned to perform well in such an environment and did?

We saw particularly good results from managers with a systematic approach that recognised the range-bound nature of the markets, but good discretionary managers also did well, as did some of the emerging market strategies we follow. Systematic trend-followers had a tough time. The strategy has delivered excellent results in the past, and so should not be dismissed, especially if investors see volatility returning to the market.



The SEB Mellon Currency Index is made up of 85 "pure" foreign exchange managers who have a track record of at least 18 months, at least USD10 mn assets under management and who are unconstrained by benchmarks. The index differs from existing 'currency' indices in that the rules ensure that only currency return is admitted

Source:SEB

What are the trends in FX investing?

Investors have realised that they can access currency alpha without the need to fully fund those investments. This makes currency a truly unique and portable alpha source. We are also experiencing the emergence of new strategies – those that reflect the prevailing low volatility environment, and some very sophisticated strategies which use advanced algorithmic models to trade.

Where do you see the challenges going forward?

We think that currency as an asset class is here to stay, and that currency will be seen as a vital component of any well designed investment portfolio. The challenge in such an environment will be managing capacity. Successful foreign exchange managers attract large volumes of capital - but this can be a double-edged sword as certain strategies have witnessed a "fall-off" in performance.

How should one invest, to achieve "reliable returns" in FX markets?

The answer, as in any asset class, is to take a very long term approach - choose managers very carefully and in accordance with a sound set of principles.

PRACTITIONER'S POINT

Rob Myers - the original founder of RM Restorations and RM Classic Cars and the leader in the investment-grade collector car market in North America - shares his views on vintage cars as an asset class

How investable are vintage cars as an asset class?

Vintage cars, purchased with knowledge and of significance, are very investable assets.

Is the market for vintage cars still very speculative and how frequently does it tend to display bubble behaviour?

The last major market bubble was in 1989-1990 which was speculator driven. That is not the case today. Thanks to a proliferation of all the media dedicated to the vintage car industry- it is seeing phenomenal growth that is fuelled by true car enthusiasts, not speculators. This movement is very similar to the fine art market. Increasingly people see the great cars of the world as an art form with some of the rarest, worthy of being "masterpieces" in their own right.

Although there are many vintage cars - there are only a limited number that would appreciate. What percentage of the total vintage cars do you believe these investment grade vintage cars comprise?

We estimate that 60% of the "vintage" cars available would be considered "investment quality" cars with historical significance and rarity. The internet has a wealth of information and auction sales history that are good indications of the strength of the market and the type of cars, throughout the different eras that continue to perform as investments - dating from the early brass era to the 60's and 70's muscle cars.



Viewed purely from an investment perspective - what are the criteria one should seek/consider in a vintage car?

There are several factors to consider. First would be "rarity"- how many were built? The lower the actual production, the more valuable the car. Also, the "known" history of the car. Any "original" factory documentation that confirms the car's history or "provenance", is extremely important to have and will raise the cars value. "Condition" - either a car that has been correctly restored to factory specs, or a car that has not been modified or changed.

For it to be a profitable venture - how long would you advice holding it for (on average) before reselling it?

The average would be approximately 5 years. Many collectors like to show their cars at various events and once they've been through the circuit, sometimes they want something different and at the same time will see a good return on their original investment.

Are vintage car prices subject to investment led cycles; seasonality ... or driven by other criteria?

There are generational factors that contribute to the record prices fetched by automobiles, similar to the market for art or nostalgia. The wealth created by the baby boomer generation, who are now approaching retirement age, are responsible for driving today's market for vintage cars. They're more educated, sophisticated and wealthier than previous generations and have recognised the value of cars, as art. Once these baby boomers retire their wealth transfers to another generation who will have the same appreciation for these investments.

The rarest cars can be considered the world's masterpieces. Take for instance, the 1962 Le Mans winning Ferrari Testa Rossa that RM is offering at its Marnello, Italy auction. It is not only one of the most important cars ever built by Ferrari, but it has an incredible and fascinating provenance. Driven by Formula One world champion Phil Hill to victory at Le Mans in 1962 makes it an unparalleled investment. Many of Ferrari's cars could be considered the Picassos or Rembrandts as they are truly forms of art and beauty as well as mechanical wonders; considering the engineering and intuitive aerodynamics that went into building these cars.

What is the "real" return one can expect - given that vintage cars need to be maintained; restored; insured; stored in special conditions, etc?

The return on investment depends on the car and the purchase value. Some of the most valuable cars like the Bugatti Royale have risen in value to USD30 mn or more and will continue to do so. A 1962-64 Ferrari GTO is widely considered to be the quintessential Ferrari model and one of the most famous sports cars of all time - it has doubled in value in the last five years to USD20 mn. Even the rare American built 1971 Hemi Cuda convertible was sold by us for a record USD2.4 mn. It could also be considered one of the holy grails of muscle cars as it was one of only 11 built and has a well documented and known history.

Is it possible to combine the "fun" factor with the investment factor when investing in vintage cars?

Vintage cars offer a unique experience and appeal to our senses more than other traditional collectables - the sound; the feel of a great sports car in your hand; the beauty of a magnificent coach built classic or the thrill of driving a vintage race car around the track. Those are the factors that make collecting cars fun. You can't drive a painting!

What are the trends and in your opinion sought after "investment grade" vintage cars?

There are many cars that could be considered future investments such as later model cars that once again refined a new generation of mechanical genius and collectability. Again those offered in limited numbers such as special edition American cars like Corvettes, Vipers and of course European super cars will always have a certain collector appeal. Special edition cars like the Ferrari Enzo and the Bugatti Veyron have already proved to be future classics by continuing to sell for well over their listed price.

Comments /remarks...

As in the art world, investing in a vintage car requires some homework. Attending auctions can be a great learning experience – they are attended by specialists and enthusiasts who are happy to share their knowledge ... helping you make an informed decision.

LITIGATION INVESTING - PALM BEACH CAPITAL ADVISORS, LLC

Sovereign Medicare Recovery Trust - SMRT

The Sovereign Medicare Recovery Trust (SMRT) is a one-off specialty litigation case that is a secured loan to a plaintiff, major non-profit organisation.

The Trust is paying investors a 9% return on capital (ie even if the case is lost, investors get capital returned plus 9%) in the best case (ie if the settlement were to exceed USD1 bn from a claim of approximate USD100 bn) it would offer a six to one plus the return of capital and 9%.

It is low risk, as the plaintiff is escrowing funds to assure loan repayment

Focus: recover medical costs paid by Medicare

Strength: low risk, high return

Weakness: "tobacco dollars" back defence

Opportunities: recovery helps refinance Medicare

Threat: if the plaintiff decides to drop the case; liquidity constrains on the plaintiff

Risk: the plaintiff has an estimated USD25 mn income, and is placing 15% in escrow to assure repayment of the loan plus regular interest at 9% to investors

Ability to identify litigation cases that will be funded: identify genuine, high-potential cases the plaintiff approached the Trust, as it is an organisation representing senior (over 65 years old) interest and came "in" via the firm's venture capital vehicle which is active in the anti-aging research and litigation investments

Level of litigation expertise: there are five major law firms working on contingency in this case - all top level litigators and they are anxious to punish tobacco companies for proven RICO violations that are resulting in thousands of smoking related illnesses and death. As an example - a Harvard study was just released showing nicotine levels have risen 11% in last 10 years. In order to compensate for those that quit smoking, tobacco companies are being accused of retaining smokers, with more addiction

Ability to procure documentation: a lot of evidence has been made available due to smoking related cases One Federal Judge (Kessler) gave a 1743 page opinion on why the tobacco companies as well as their attorneys, are guilty of RICO violations

Ability to actually claim the proceeds due: escrowed funds to pay the loan, win or lose Big tobacco companies would most likely pay rather than deal with the negative publicity that accompanies such a settlement

Ability to efficiently allocate capital: this is a loan to the plaintiff for the consumer awareness side of the case

No. of litigation cases held in trust: single

Avg. duration litigation case lasts, until claims are paid out: two years to return capital and 9%, could be longer on settlement of 6 to 1

Reward: offers uncorrelated returns

Scope for litigation trusts: this is slated to develop into a growing industry due to relatively high yields offered

Barriers to entry: expertise; ability to raise capital; most investors have never heard of litigation investment - educational process involved.

Competition: limited thus far, but growing

Investment Criteria: target audience - accredited investors under US Reg D requirements for US citizens and residents.
access to investors: globally

Trust size: USD1 - 4mn

Liquidity provided: need to be invested for the life of the trust - max. 2 years
Transparency provided: quarterly distributions

Authorities trust is regulated by: formed as a Delaware Statutory Trust (ie a Business Trust) and Regulation D 506 offering documents under SEC private placement rules.

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