

CREDIT STRATEGIES

Focus:

An opportunistic, value-oriented hedge fund that employs a multi-strategy approach to credit markets to deliver consistent, risk adjusted returns. Investments include non-investment grade loans, corporate and high yield bonds, distressed debt and structured products.

Fund's strengths:

- Designed to be an "all weather - best ideas" fund (fund's tactical approach combines income producing arbitrage strategies with capital gains oriented directional investments allowing the fund to capitalise on varying market conditions.

- Highland Capital Management LP is one of the largest investment managers of non-investment grade credit, with a proven track record of total return investing in loans, bonds, distressed and structured products. It also has one of the most experienced investment platforms in the credit markets, proprietary sourcing.

- This fund benefits from the research, management expertise and best ideas of Highland Capital Management LP.

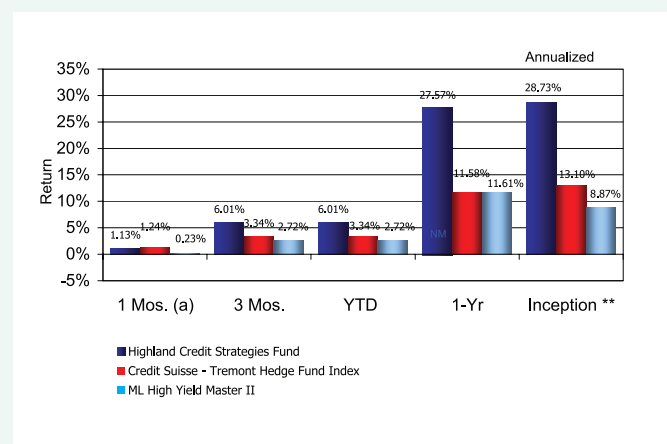
Weaknesses:

Better suited to investors with a medium to long term investment horizon (one year lock up)

Opportunities and threats:

Fund's performance would be challenged in a scenario such as the Russian liquidity crisis - when global market liquidity dries up. However, such events are followed by good investment opportunities.

HIGHLAND CREDIT STRATEGIES MASTER FUND



Net Performance over Time vs. Benchmarks
Source: Highland Capital Management LP

Risk Management

☐ = low ☐ = low/moderate ☐ = moderate ☐ = moderate to high ☐ = high

Fund's major risk:

- Systemic liquidity risk (liquidity dries up eg. like the Russian crisis)
- Unforeseen and unexpected losses (beyond what has been modelled) due to credit events
- The fund manages, monitor, mitigate and exploit it the above by...
Rigorous research with a highly diversified portfolio construction
- Key man risk (team effort) : ☐☐☐☐☐
- Overall fund leverage used is moderate and a function of the fund's underlying portfolio composition

As applicable to the senior secured loan bucket (current allocation as of March 31st, 53 % within portfolio)

- Expertise in identifying loans: ☐☐☐☐☐
- Ability to source loans : ☐☐☐☐☐
- Ability to regain at least par value in case a loan defaults: ☐☐☐☐☐
- Ability to enter and exit investments without swaying the market: ☐☐☐☐☐

As applicable to the high yield bonds bucket (current allocation as of March 31st, 15% within portfolio)

- Ability to identify high yield bonds: ☐☐☐☐☐
- Ability to source high yield bonds: ☐☐☐☐☐
- Ability to withstand spread blow outs: ☐☐☐☐☐
- Ability to regain at least par value in case a bond default: ☐☐☐☐☐

As applicable to stressed and distressed investments (current allocation 24.5%, as of March 31st within portfolio)

- Fund invests in liquid distressed investments only
- Ability to identify and source distressed debt: ☐☐☐☐☐
 - Ability to enter and exit investments without swaying the market: ☐☐☐☐☐

As applicable to structured products/ special situations (current allocation 4.5 % within portfolio)

- Expertise in structuring: ☐☐☐☐☐
- Ability to manage liquidity risk: ☐☐☐☐☐
- Ability to manage counter party risk: ☐☐☐☐☐
- Efficiency achieved in minimising transaction costs: ☐☐☐☐☐

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Performance Parameters

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

- Ability to manage assets without foregoing opportunities: (quality of ideas takes precedence over fund's size) ■■■■
- Efficiency in putting investor capital to work ■■■■
- Portfolio optimisation expertise: ■■■■■
- Fund tends to show relative outperformance under normal market conditions
- Since inception consistency in delivering targeted returns: ■■■■
- Diversification achieved:
 - Geography: current portfolio attribution (US conc.): ■■
 - By varying maturities: current portfolio attribution ■■■■
 - Industries: current portfolio attribution ■■■■
 - By ratings/debt tranche: current portfolio attribution ■■■■
 - Ability to sustain performance over varying market cycles: ■■■■■
 - Annual avg. correlation from fund's inception to 31, March 2007
 - stocks: S&P 500: 0.36
 - bonds: Merrill Lynch High Yield Master II Index: 0.50

Outlook

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

- Barriers to entry: expertise, network, sourcing
- Outlook on investing in this space: ↑
- Ability to deliver net targeted annual returns over:
 - The next 12 months: ↑
 - Next 1-3 years: fairly high
- Outlook for a multi-strategy fund such as Highland's: ↑
- Threat posed by competition: low
- Fund's current assets under management: AuM: USD 2.55bn
- Max. Capacity AuM: over time has the potential to grow to USD10bn

Investment Insights

This fund is targeted at: institutional investors, pension funds
 It aims to deliver: low volatility, consistent, uncorrelated returns
 To optimise returns, recommended holding period: 18- 24 months
 Available to investors: globally
 Funds base and other currencies it is available in: USD

Fund's complexity for an investor: fairly high
 Transparency provided to investors: fairly high
 Fund's Manager is registered with the SEC
 Ratings/Awards: Absolute Return Award for New Fund of the year 2006