

## 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.

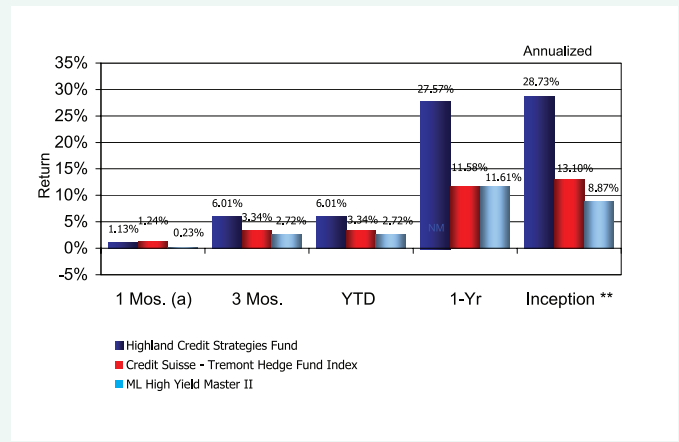
### Weaknesses:

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: ☐☐☐☐☐

## CREDIT STRATEGIES

## HIGHLAND CREDIT STRATEGIES MASTER FUND

### 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

## FINANCING FILM DISTRIBUTION

**Duncan Reid, Commercial Director at Ingenious, explains why they intend to launch a fund that is dedicated to the financing of film distribution**

"Film distribution is one of the most profitable yet underinvested parts of the global film industry." Why has this been the case?

The economics of film distribution are very different to those of production - distribution tends to be at or near the top of the 'waterfall' when it comes to allocating income generated. There is also the scope to enter into distribution agreements for films that are nearer - or post - completion and where the prospects for commercial success of the film can be much clearer. We will partner with one or two distributors in each territory and co-fund a 'slate' of films, thereby further spreading the risk.

Why the decision to launch a fund that is dedicated to the financing of film distribution? Why now? How is the fund structured?

Film distribution represents an attractive investment opportunity with the prospect of good returns which are not correlated with the stock market, thereby providing investors with an interesting opportunity to diversify their portfolio. The new Ingenious fund will focus exclusively on the "tail" of the film cycle, distribution and rights exploitation of films, which provides lower risk investment opportunities. Across all the different stages of film - development, pre-production, production, post-production and distribution - those engaged in the final leg, distribution, are typically in a priority position to recoup their costs and earn income from the first pound of revenue.

The structure we have put in place is loan notes in a securitisation vehicle listed in Ireland.

Who would be competition and how does the fund expect to differentiate itself?

The fund is among the first of its kind, uniquely focusing on film distribution. It is managed by Ingenious Media which has a "peerless" track record sourcing attractive investment opportunities in the media sector; has an extensive network of existing relationships with distributors and to date manages over GBP4 bn in investments.

"Ingenious will take a "slate approach", backing a distributor's entire portfolio of films and financing the acquisition of new film rights and film libraries" - what are the risks associated in pursuing such an approach and how does the fund expect to manage and mitigate them?

We have very high visibility of the early investment opportunities for the fund and of the likely economics of those deals. The slates of films that the distributors will put together will mitigate the risk of failure of any one film, as will our ability to select films that are well developed and where we have a very good view of the likely success.

Please elaborate on the fund's risk/return profile – average annual net returns targeted?

With a minimum investment of EUR1 mn, the fund has a targeted internal rate of return of 25% with a recapitalisation planned for the end of year two and further returns over years three to five. The investment is expected to have a five year profile and funds will only be drawn down when required over a planned two year investment period.

Who is this fund primarily targeted at?

Target investors include hedge funds, family offices and pension funds. We might also see some interest from high net worth individuals.

Isn't the funds capacity a constraint?

We are confident of deploying EUR150 mn in the next two years and already have secured distribution deals worth EUR50 mn.



Duncan Reid,  
Commercial Director at Ingenious

## NATURAL RESOURCES

### Focus:

The fund invests principally in natural resource and other commodity related funds pursuing primarily relative value and/or arbitrage strategies. The active management approach adopted allows the fund to capture short-term investment opportunities.

### Strengths:

Strategy has been constructed to recognise, reflect and exploit, actively - the diversity of underlying managers available within the natural resources fund universe.

### Weaknesses:

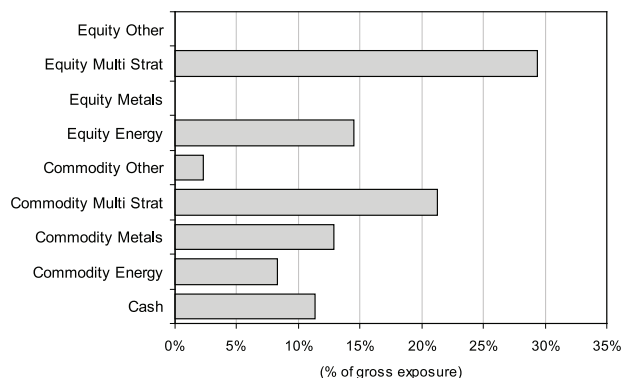
The fund is likely to experience sub-optimal performance during sustained periods of deflation and/or low growth. Additionally, whipsawing and/or oscillating markets often make trading more difficult and generally detract from overall performance.

**Opportunities:** Offers diversification to some traditional and alternative investments - the use of an active approach could provide superior risk adjusted commodity returns.

### Threats:

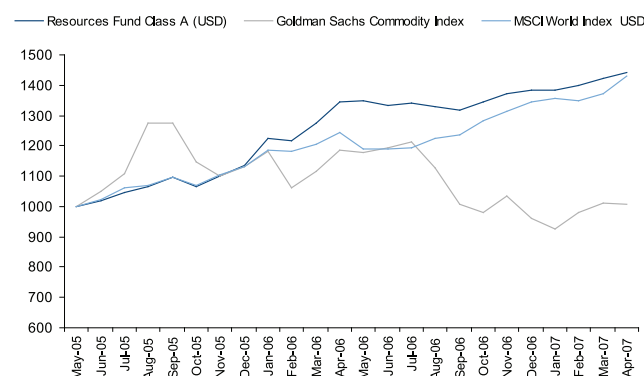
Although the fundamentals for many commodities are still bullish it is unlikely that spot prices will continue to appreciate at the same rate as in recent years. In addition, the term structures of many commodities are deeply in contango, giving rise to negative carry when contracts are rolled. Therefore the first two, and most important, sources of return are not as attractive as they have been. To quantify this, the negative carry for some commodities is as high as 20% per annum, which requires spot prices to increase by the same amount to merely offset this.

## ERMITAGE RESOURCES FUND



### Strategy Breakdown

Source: Ermitage Asset Management



### Cumulative Performance of USD 1000

Source: Ermitage Asset Management

## Risk Management

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

### Fund's major risk:

#### Investment and trading risk

Sub-optimal manager selection illiquidity at underlying manager level  
 Concentrated underlying (manager risk)

- Ability to identify natural resource fund: □ □ □ ■ □
- Ability secure allocation with such funds: □ □ □ ■ □
- Due diligence expertise: □ □ □ ■ □
- Portfolio construction skills: □ □ □ ■ □
- (conc. - no room to manoeuvre when the tide turns) □ □ □ ■ □
- Avg. correlation between positions: 0.4

- Expertise in exploiting/containing volatility risk: □ □ □ ■ □
- Market risk sensitivity: □ □ ■ □ □
- Manager related risk: □ ■ □ □ □
- Event risk: □ ■ □ □ □
- Currency risk (as applicable to underlying): □ ■ □ □ □
- Leverage risk: □ □ □ □ □
- Competitor related risk: □ □ ■ □ □
- Key man risk: □ ■ □ □ □

## NATURAL RESOURCES

## ERMITAGE RESOURCES FUND

### Performance Parameters

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

- Positions currently in the portfolio: 16
- Efficiency achieved in putting investor cash to work: ■■■
- Diversification:
  - Based on commodities represented: ■■■■
  - Based on actual commodity allocation: ■■■
- Asset class focus (commodity related equities + fixed income, direct commodities, combination) ■■■■
- based on investment strategy (discretionary, systematic, hybrids) ■■■■
- Investment style (relative value, directional, volatility trading and market neutral) ■■■■
- By time horizon ( intra-day to long term trend following) ■■■■

- Geographic focus: ■■■
- Ability to perform under different market conditions:
  - Rising : ■■■■
  - Falling : ■■■
  - Sideway trading: ■■■
- Correlations (avg. since fund's inception) to:
  - stocks: S&P 500 0.50
  - bonds: JP Morgan Global Govt. Bond index - 0.10
  - commodities: GSCI 0.60
  - hedge funds: HFRI 0.40
- Since inception, consistency in delivering targeted returns: ■■■■

### Outlook

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

Define the barriers to entry: Expertise

Outlook on investing in the natural resources space: ↑

Scope for a fund like Ermitage Resources Fund: ↑

Fund's ability to deliver targeted returns over the next:

- 12 months : ↗
- 1-3 years : or low growth - can't be ruled out over the next 1-3 years: ↗
- 5 years: ↑

### Investment Insights

- Fund AuM: USD65mn
- Funds targeted AuM: USD600mn (2007/08)
- This fund is primarily targeted at: institutions, pensions, endowments, fiduciaries, HNWI
- To optimise returns recommended average holding period: 3 years
- Investor related geographic restrictions: restricted to US pvt investors

- Fund's base currency USD and other currencies it is available in: EUR, GBP
  - Fund complexity for an investor: fairly high
  - Registered with: The Jersey Financial Services Commission ('JSFC').
- Following application, it is anticipated that the C, D & E shares will be admitted to the Official List of the Irish Stock Exchange in May 2007

## RARE STAMPS

### David Brandon on investing in rare stamps

Philatelic Investment, the investment of funds in collectible postage stamps for the purpose of realising a profit, is a relatively recent phenomenon...

Stamp collecting has long had the reputation of being an unprofitable hobby for most beginning collectors; nevertheless, investing in stamps is growing in popularity among more advanced collectors. Rare stamps are among the most portable of tangible investments, and are easy to store. They offer an attractive alternative to art, other collectible investments, and precious metals. In addition, for those wary of investing in single-country mutual funds or individual stocks of developing nations, stamps may provide the advanced collector/investor with a means of profiting from their economic growth.

#### What makes investing in rare postage stamps a unique collectible?

Collectibles of all types have an inherent weakness in that their value is entirely perceptual. One cannot eat or wear or live in a painting, vase or stamp. Perceptual value is, therefore, a very fickle attribute that may be subject to broad swings in attitude and thereby, price. This has certainly been true for all collectibles, and stamps have been no exception. Even so, there are numerous differences between stamps and all other collectibles which give them some unique investment advantages.

#### What peculiar about rare stamp investing?

Stamps have been valued as a collectible since their inception. Its 150 year history provides confidence that it will be maintained through all types of economic or political stress. Besides, when one is investing thousands in stamps, it is important to know that the purchase price is in line with prices that can be traced back for decades. This also establishes a foundation for the quick resale of the item at a predictable price, something most collectibles don't have. Numerous books have been written on stamps, thereby providing in depth information for evaluating individual items as well as specialty areas. The mere existence of extensive data on particular items increases the level of comfort with an investment in such items and consequently, demands.

#### Who should be investing in this collectible?

Collecting stamps appears to satisfy a natural human need, given the fact that it is done worldwide across all income levels. Before international travel and television, it provided a link with an exotic and unknown world far away. There is still some of this today, perhaps motivated more by a desire to maintain a link with one's country of origin. The fact that collecting continues to be strong confirms that its foundations are rooted in a need that is not being satisfied by other means.

#### Can one liken collecting rare stamps to paying a fortune for acquiring a work of art?

All collectibles are generally pursued by the collector for some internal satisfaction. With knowledge of stamps comes aesthetic satisfaction. This has been best portrayed in the media by wealthy individuals paying thousands of pounds for works of art. It is no different for stamp collectors with their stamps. A stamp, unlike a work of art, is not unique. There are generally thousands of similar copies. To a collector, however, this does not diminish the appeal since for most, it is not founded on having exclusive possession of an item. As an aside, however, note

that it is possible to build a collection which is unique and of exhibition quality. This is the pursuit of many collectors.

#### Like gold, are rare stamps a repository of value?

One of the strongest attributes of stamps is their retention of value and value appreciation. In today's investment world where we face an unending selection of investment alternatives, one would question the need for stamps as a repository of value. The same has, from time to time, been said about gold. Two factors account for this continuity of value. First, investors with years of experience know that few investment alternatives have worldwide recognition and exchangeability, provide long term stability and freedom from government intervention. Gold and diamonds are popular for this reason, however, their value is too easily recognised and they are not as easily hidden as stamps. The second reason stamps are popular is that in many parts of the world, where investment alternatives are severely limited, they do represent a preferred investment vehicle. Countries with organised securities markets and the free movement of funds across national borders is still the exception for most people of the world. Even when such freedoms are finally established, confidence that they will not be taken away by the next government is always a concern. For individuals with some accumulated wealth, stamps represent a portable vehicle for flight, should that become a necessity. The world of stamp collecting is filled with stories of how stamps were used precisely for this purpose. In addition to this portability is the fact that even when openly visible, their value is not apparent to the non-collector.

#### What is and why is expertising of such importance?

Expertising is examining and certifying stamps, covers and other philatelic material submitted by collectors, dealers and auctioneers worldwide. Certificates enhance the value and enjoyment of an acquisition. We offer a service which has issued certificates for over 30 years and these certificates are highly regarded. Each of our certificates is signed by a minimum of three full time professional Philatelists with well over 120 years of knowledge shared between them. We are internationally recognised as the leaders in Philatelic Expertising by auctions and serious collectors worldwide – in fact, we are the most active expert committee in the UK and issue more certificates than any other organisation.

#### Remarks/comments:

Never purchase items without the original certificate and in the form as originally certified. Any item that is not in the form as originally certified renders the certificate as null and void.

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