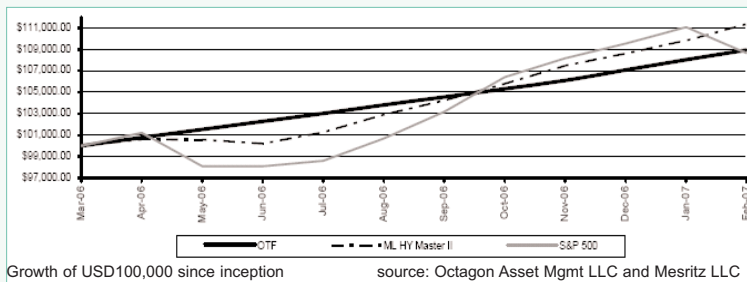


TRANSPORTATION



Octave Transportation Fund

Focus: the fund invests in asset-backed loans, future-flow financings, secured bridge loans or mezzanine debt, preferred stock, equity, equity-derivatives, equity kickers, warrants, and options of companies in the transportation sector that generate consistent and dependable cash flows derived from railcars, ocean vessels, aircraft etc.

Strengths: experience in asset securitisation and in the transportation sector (the fund is jointly managed by Octagon Asset Management, LLC and Mesritz, LLC); conservatively managed to deliver consistent, non-correlated returns

Weaknesses: the portfolio is still small and fairly concentrated;

launched in April 2006, a key challenge is matching the extensive transaction pipeline with investor liquidity

Opportunities: the proliferation of global trade and commerce provides a deep and promising pipeline of investment opportunities in a niche sector

Threats: characterised by complex financial structures as multiple parties are involved - hence requires a thorough understanding and ability to manage counterparty and transactional risks; securitisation structures in the transportation sector tend to have longer durations

Risk

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

What according to you is the most significant risk?

Fraud - in order to diminish this risk, the manager performs thorough due diligence on all the counterparties involved in the transaction

Ability to identify securities of companies in the global transportation sector:

☐☐☐☐☒

Ability to extract value from transportation assets:

☐☐☐☐☒

Ability to manage credit risk posed by debt securities:

☐☐☐☐☒

Expertise in evaluating creditworthiness of the debt security issuer:

☐☐☐☒☐

Ability to evaluate integrity of the underlying transportation asset:

☐☐☐☒☐

Expertise in the valuation of collateral (securities backed by transportation assets):

☐☐☐☒☐

Ability to recover full value of collateral in case of a default:

☐☐☒☐☐

Importance allocated to reviewing documentation:

☐☐☐☒☐

Event risk:

☐☐☒☐☐

Counterparty risk pertaining to over the counter and inter-dealer markets:

☐☐☐☐☐

Currency risk:

☐☐☐☐☐

Leverage used:

☐☐☐☐☐

Performance Parameters

☐ = insufficient ☐ = adequate ☐ = satisfactory ☐ = good ☐ = outstanding

Securities currently held in the portfolio: 2

Efficiency in putting investor capital to work:

☐☐☐☐☐

Access to "deal flow":

☐☐☐☐☐

Ability to source securities with:

☐☐☐☐☐

Varying maturities(avg.2 years):

☐☐☐☐☐

In different transportation sectors:

☐☐☐☐☐

Ability to perform in a rising, falling and sideways trending markets:

☐☐☐☐☐

Ability to sustain performance in a falling interest rate environment:

☐☐☐☐☐

Avg. annual correlation to equities, bonds, hedge funds as an asset class: non correlated

Since inception, consistency in delivering targeted returns:

☐☐☐☐☐

Outlook

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

Barriers to entry: high - transaction structuring expertise, network of relationships in the global transportation sector

Outlook on investing in global transportation securities:

↑

Scope of investing in a global transportation security fund:

↑

Ability to guard niche/uniqueness: fairly high

Threat of competition: moderate

Your outlook on the fund being able to deliver the targeted returns over the next:

1 year: and over 3-5 years: fairly high

What is the maximum capacity of AuM for the fund: currently unconstrained

Fund would show a relative outperformance: when economic dislocations occur

Investment Insights

This fund is primarily targeted at: institutional investors

Funds USP: sector diversification

Suited to those looking for: steadiness of returns with low volatility and low correlation to other asset classes

To optimise returns you recommend an average holding period min. of 24 months

Geographic restrictions: fund has a master feeder structure

Fund's base currency and other currencies this fund is available in: USD

Fund complexity for an investor: low/ moderate

Transparency provided to investor: high

Registered with: Octagon Asset Management, LLC the investment advisor for the Octave Transportation Fund, is registered as an investment advisor with the SEC

STRUCTURED PRODUCTS

Roger Studer is head of financial products, Bank Vontobel, and president of the Swiss Structured Products Association (SSPA). He shares his views on:

Investing in structured products... the next generation:

What are the next generation of structured products like?

The next generation of structured products are no longer confined to assets that form a passive base.

Instead, the underlying assets (combination of financial instruments and derivatives) can be dynamically engineered to optimise and deliver the risk-return-cost profile being sought. As a trend, structured products increasingly traverse multiple asset classes such as - commodities, hedge funds, credit, fixed income, indices, etc.



What is special about these structures?

The fact that the underlying basket of dynamic "products" can be periodically adjusted to comply with the pre-defined quantitative criteria - makes them special. This is done to adapt and keep abreast of the changing market circumstances, which in turn makes it probable for structured products to deliver returns that are more appealing than those that might be offered by their static counterparts.

What are the key benefits for an investor?

Structured products with dynamic features give investors access to professional and active investment strategies that are based on purely objective criteria like financial indicators or risk factors. As an example our Dynamic Vontobel Sector Rotation (certificate) uses model-based-unbiased-criteria to identify sectors and stocks that offer the most promising growth potential. In so doing, and by overweighting or underweighting sectors and stocks compared to its benchmark, the certificate stands to accomplish its objective of outperforming the underlying index. Since the launch of the first certificates in early 2003, Dynamic Vontobels have proliferated. The first generation of Dynamic Vontobels were based on familiar equity indices such as the S&P 500, the EuroStoxx 50 or the Swiss Market Index. Dynamic Vontobels are now being structured around assets such as commodities and hedge fund indices.

Structured products also make it possible and affordable for a broader investor base to participate and easily access what might otherwise be out of reach assets and sectors (such as real estate, infrastructure - where barriers to entry may be high; the liquidity layouts and lock ups restrictive). They can be designed to achieve diversification and can still meet an investor's risk-return criteria.

What are their constraints and risks? Is there a way to overcome them?

As with all investments, investors need to clearly define their needs in terms of returns expected, risk appetite, and time frame. Structured products offer a comprehensive range of possibilities, such as capital protection or yield enhancement in sideways trending markets. For example, if the performance of the underlying were negative; by investing in a structured product, an investor has the opportunity to contain the downside losses, but is still positioned to benefit from the upside potential. In fact, an investor benefits from the positive performance of the underlying with a predefined participation rate. This makes it possible for us to offer individual investment solutions.

What challenges are the new generation of structured products likely to face?

In my view, one of the key challenges is the sheer number of structured products that are currently available. This makes it difficult for investors to understand the respective benefits they offer, and to compare them with other structures. There needs to be an educational process for investors to understand, be conversant and feel comfortable with the various structures and what they can and can't offer and at what price. Hence, I would recommend investors to look for products that have a demonstrated track record (or reliable back tests) and seek those that are based on a proven and sound investment strategy.

Although structured products are not homogenised, how can they be made more cost efficient, transparent?

As with most industries competition plays an important role - at least this is experience we have had from the structured products listed on the SWX Swiss Exchange. Competition is not only a powerful force within the industry but also among the different financial instruments. In terms of transparency, the foundation of the Swiss Structured Products Association (SSPA) has been a milestone. The association fosters the development of the industry and places emphasis on achieving and providing transparency.

Structured products are going main stream – how relevant is nomenclature in this regard?

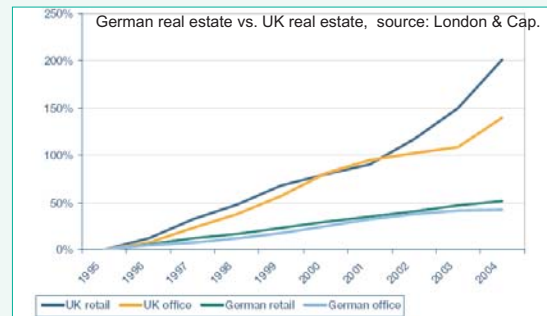
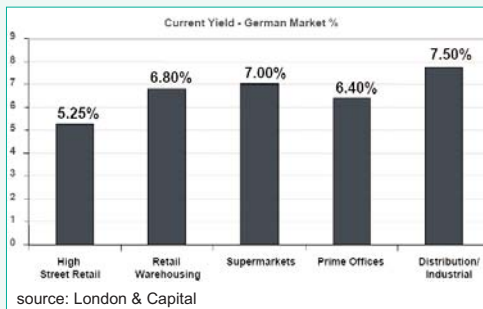
One of the first and major projects of the SSPA was the introduction of nomenclature standards through a so called "Swiss Listed Derivatives Map". These nomenclature standards basically take an industry that has been based on individual product names to a point where we're all speaking the same language. Eventually, if we can't agree on what we're calling the various types of customised (structures) investments, we can't expect advisors and investors to understand this industry.



REAL ESTATE



Iain Keys, director of real estate



Iain Keys draws on his experience of managing London and Capital's **German Real Estate Fund** and explains why now is an opportune time to invest in this space...

From an investor's perspective - what have been the significant developments within the German real estate market?

The main change is really the economic improvement. This has attracted a lot of investors which will drive yield compression short term and the economic recovery will drive rental growth longer term.

What are the peculiarities exhibited by real estate investments in Germany? Do they differ significantly from those observed in the US and Asia?

Germany benefits from economic growth potential with low borrowing which compares more favourably to the US. Asia is an altogether different story and the benefit for Germany is lower risk and easier access to the market than in most Asian markets.

Would you say now is an „opportune“ time to invest in German real estate, or is the market already showing signs of over heating?

Germany offers compelling opportunities to investors across key sectors of the commercial property market. The country has a mature regulatory environment in which property rights are entrenched. Crucially, there is a good availability of attractively priced stock on the German market. Whilst UK commercial property yields fell to sub 5.5% in 2005, similar quality stock in Germany can be sourced at yields between 6.75% and 7.25%, providing considerable scope for capital growth. Borrowing can be sourced at a total cost of 4.1% per annum (taking a Euribor rate of 3.05% and a margin of 1.05%). Taken in tandem with high yields on commercial property, low borrowing rates create an opportunity for considerable yield arbitrage.

Another significant factor is that long lease terms can be sourced on the German market. Indeed, whilst the length of leases is typically not as high as in the UK (where duration can be 20 years and higher), there is nonetheless a sufficient availability of leases of 10 years duration and upwards. This compares favourably with other European markets.

I believe the German real estate market is definitely not overheating as one has to compare Germany with the other European markets. Hence, it is still the right time to get in. Longer term rental growth is the key to this - ie as this is not just a short term yield compression game.

Based on your experience, what are the risks involved and how do you go about mitigating them?

Seeking good advice is the best way to mitigate risks (structures, taxes etc.) in a foreign market. Interest rates could rise so we fix our borrowing at the time of purchase. A larger risk is the economy not improving - but this seems increasingly unlikely based on the present flow of economic data.

Do you expect a blow out in yields? When and with what consequences?

No, I do not.

Within real estate, is the potential to perform higher in certain areas - commercial, residential, recreational?

We feel the best sectors are out of town retail and logistics as they offer higher purchase yields than high street retail and offices and better rental growth potential. A lack of development will lead to more activity and therefore growth as the economy recovers.

Why have you chosen to focus on commercial real estate related investments?

It has growth potential; the opportunity to arbitrage on purchase yield over borrowing and it is an established market that has a "system" (eg land registry).

However, a highly selective approach is imperative, as the attractiveness of the outlook varies from sector to sector in the German commercial real estate market. Our fund maintains a bias toward the retail sector, particularly the supermarket and retail warehousing submarkets. Retail warehousing units can currently be sourced with a yield in a range of 6.75% and 7.5%, while yields for supermarket premises range between 6.5% and 7.5%. There is a large presence of strong covenants (including Metro, Rewe, Edeka, Netto and Lidl) and our focus will be on new stock (implying lower maintenance costs). Land supply constraints are a further key support for existing stock in this sector.

The outlook is also attractive for the distribution warehousing (logistics) sector. The market is displaying clear signs of a shortage of investment grade product, and going forward planning constraints mean that the feed through of fresh stock will likely lag demand, acting as a key source of yield compression.

With regard to the office sector, whilst many domestic German funds have traditionally had a very high proportion of their holdings in this area, we adopt a cautious stance due to the existence of a considerable supply overhang. It will take a sustained further increase in business confidence to clear this glut, which has accumulated over a long period, so it is expected that only a few pursuable opportunities will arise. Meanwhile, buying opportunities in the high street retail sector are restricted (a large proportion of stock is held by investors as very long term investments).

The impact of G-REITs for other real estate investment vehicles?

In my view there has been no great impact - in my view, it is similar to UK. property which shows a low correlation to other asset classes. So I struggle to see why one would want to gain access to property in an equity format bearing in mind the current volatility in the equities markets.

Comments/remarks...

Our German Real Estate Fund has grown to over EUR 400mn in a year and we have another EUR 350mn under offer. Access to the market whilst yields are still attractive is a key to a successful future for the fund.

ART: CONTEMPORARY AND VERY CONTEMPORARY

A Square's Art Series with Philip Hoffman¹ - I

Focus: Contemporary Art

Description: Twentieth Century Western Art can generally be divided into four sectors:

- Modern Art (1900-1945)
- Post War (1945-1960)
- Contemporary (1960-1985) and
- Very Contemporary (1985-present day)

Within each of these sectors are a variety of art movements, for example [Abstraction](#), [Minimalism](#), [Pop Art](#), etc.

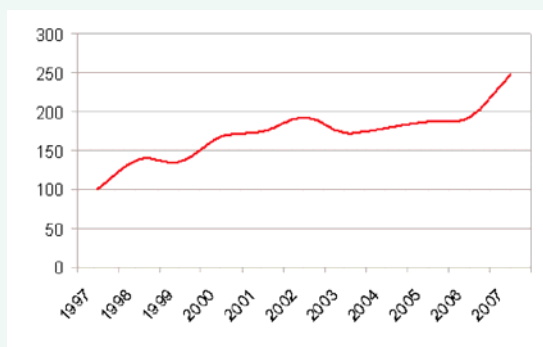
An artist such [Andy Warhol](#) would generally be classified as Contemporary, versus [Damien Hirst](#) as Very Contemporary and [Pablo Picasso](#) would have spanned Modern, Post War and Contemporary Art

• [The hottest areas of the art market are currently Contemporary and Very Contemporary Art](#)

- The record price for a Post War artwork (and indeed the most expensive artwork ever sold) was the reported November 2006 sale of the [Jackson Pollock](#) painting from 1948, [No. 5](#), which reputedly sold privately for USD140mn*
- Prices in this market are still dominated by mainly UK and USA artists

Strengths of the Contemporary and Very Contemporary Markets:

- Unlike other areas of the art market (Old Masters, Impressionists, Modern Art), there is an growing supply of works, due to the ongoing production by artists. For example, [Peter Doig](#), the artist recently set a record at auction for a European living artist, with the painting [White Canoe](#), February 2007, at Sotheby's London, (sale price including premium GBP5.7mn) - is only 48 years old and producing work
- New artists enter the market every year
- New collectors are also joining the market, for eg. from Russia, China and India - who besides collecting regional art are also interested in Western art
- The above mentioned painting by [Peter Doig](#) was bought by a new Russian buyer, who spent over GBP10mn during that auction week.
- Art fairs where Contemporary works can be purchased - such as [Frieze in London](#), [Art Basel Switzerland](#) and [Art Basel Miami Beach](#), have become much lauded affairs that have launched the Contemporary art market on the global social scene



• This market has shown steady growth over the past decade, as illustrated by the adjacent graph (courtesy: Dr. Rachel Campbell, an art market analyst at the University of Maastricht).

Graph shows:

100 EUR invested in 1997 in the [Contemporary Art](#) market would have averaged almost 250 EUR over the 10 year period (Datasource: Art Market Research)

Weaknesses of the Contemporary Market:

- Access to the best works can be very difficult, as works by popular artists tend to be sold to top collectors
- Market hype can inflate artists' prices
- Price speculation by some collectors
- Glut of work to the market can make finding quality works by emerging artists quite difficult

Opportunity:

- A portfolio of emerging artists can include some with lasting popularity and higher prices, i.e. Charles Saatchi and his portfolio of YBA's (Young British Artists) as also his portfolio of painters from the Leipzig School
- Adding Contemporary art to a wider art portfolio, including Old Masters, Impressionists and Modern Art, only adds to diversification within the art market
- [The Contemporary market moves faster than any other sector of the art market, thus creating greater risk, but also greater rewards](#)

Threat:

- An art market crash, due to perception that prices of Very Contemporary art, in particular, are over inflated
- Financial market crash, although it should be noted that art has a very low, even negative, correlation to other traditional asset classes

Risks involved:

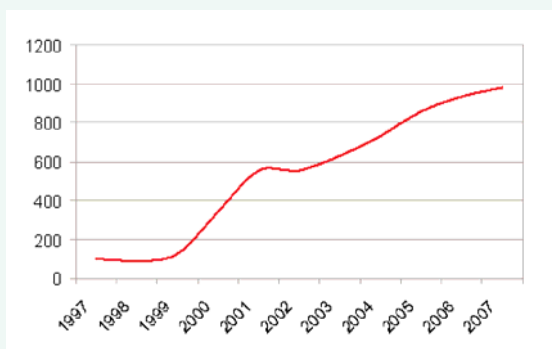
- Theft/ Damage/ Provenance/ Title issues
- Getting caught in market inefficiencies, i.e. transaction costs via galleries and auction houses
- Low liquidity rate for certain artists
- Selling at less than market peak

Charles Saatchi sold from his collection, a 1995 painting by the British artist Glenn Brown, for approximately GBP10,500 in 1998, and then the same painting sold at an auction for approximately GBP220,000 in 2005

Performance:

- With proper due diligence and market experience, the above risks can be minimised and/or avoided and the performance of an art portfolio can be maximised
- Artist performance can be tracked using a wide array of information, including art indices that are based on auction records, an artist's rate of production, exhibition history in both galleries and museums, which collectors/ gallerists /museums buy and/or promote the work, and most of all, supporting market intelligence

ART: CONTEMPORARY AND VERY CONTEMPORARY



• Graph depicts:

For example, Dr. Rachel Campbell tracked the market of Bridget Riley (b. 1931), a British artist who has been producing work for over 40 years, and the steady increase in her market over the past 10 years 100 EUR invested 10 years ago in 1997 would have an average value of 981 EUR in February 2007. (Data source: artprice.com)

- Expert advice in the market is crucial to undertaking investments in Contemporary art, especially since the art market is highly unregulated - 'insider' information is key.
- Art funds can help provide the above

Forecast:

- With numerous new buyers entering the Contemporary market and demand stepping up, [it is widely believed that 2007 is shaping up to be the strongest year thus far](#)
- Christie's and Sotheby's are preparing to sell Post War and Contemporary artworks valued at over approximately USD500mn in the second week of May 2007, and expect many new artists records to be made

Outlook:

Contemporary and Very Contemporary Artists to be followed, and to watch out for over the next 12 months

The following artists command top prices, but will the prices continue to hold up...?

- Peter Dolk
- Andreas Gursky
- Andy Warhol
- Jasper Johns
- Sol LeWitt
- Richard Prince
- Cy Twombly
- Robert Rauschenberg
- Damien Hirst
- Willem De Kooning
- Jeff Koons

The following artists command strong prices, but does their work have the potential to be worth even more in 2007...?

- Cindy Sherman
- Mike Kelley
- John Baldessari
- Glenn Brown
- James Rosenquist
- Louise Bourgeois
- Eric Fischl
- Anselm Kiefer
- John Chamberlain
- Martin Kippenberger
- Bridget Riley

Upcoming artists to watch for...?

- Conrad Shawcross
- Banksy
- Banks Violette
- Paul Pfeiffer
- Kara Walker
- Kehinde Wiley
- Terence Koh

Comments/remarks:

Further Reading: *Collecting Contemporary*, Adam Lindemann, Taschen, 2006.
www.artprice.com, www.artnet.com, www.artmarketresearch.com

1. Philip Hoffman is founder of The Fine Art Fund, which is still the only global art fund of its kind, and has since expanded into The Fine Art Fund Group Ltd, which consists of The Fine Art Fund I, The Fine Art Fund II, The Chinese Fine Art Fund, The Indian Fine Art Fund & an art advisory arm, FAIR (Fine Art Investment & Research)

(*All prices are approximate and if sold at auction include the buyer's premium)

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ISSN 1450-4308

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