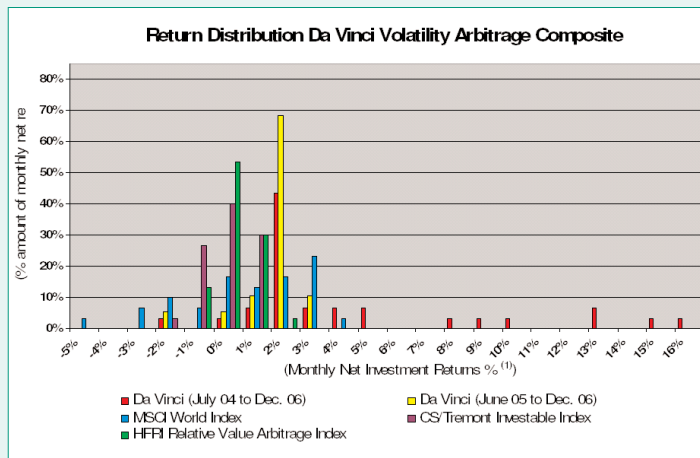




FINANCIAL FIX: DA VINCI VOLATILITY FUND



Investment performance: June 2004 - Dec. 2006

source: Da Vinci Invest

Focus: volatility arbitrage strategies - the fund's multi-strategy platform includes volatility arbitrage in the form of sophisticated long/short gamma strategies, gamma scalping. It specialises in arbitrage strategies based on highly advanced computer programming techniques. The fund targets market niche opportunities where inherent and momentary price inefficiencies exist. Their proprietary statistical models and automated trading robots monitor global markets and exploit situations where unexpected events push derivative prices unrealistically high or low. Spread trading accounts for 70% of their trading strategy: ie. pairs trading, volatility spreads. There is an execution risk because differences occur but only in a very short time frame. Trading robots adjust the risk frequently

Strengths: specialised in EUREX options - based on the team's extensive experience; disciplined and stringently enforced risk management, cutting edge IT

Weakness: fee structure (25% performance fee)

Opportunity: volatility as an asset class is gaining momentum

Threats: competition from large banks, hfs active in the same space

Risk Assessment

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

What is the major risk? Long gamma; (trade specific); theta

Managed by: Risk management software – in house programming expertise - 75% of the executed trades are positive

Expertise in identifying opportunities where the implied volatility is inconsistent with historical volatility: □ □ □ □ ■

Accuracy achieved in forecasting future volatility: □ □ □ □ ■

Precision in judging correctly how realised volatility will move relative to the implied vol of option positions placed: □ □ □ □ ■

Ability to consistently maintain portfolio's delta neutrality: (trading robot –delta hedging, gamma scalping): □ □ □ □ ■

Inherent proprietary model based risk: the model continuously adapts itself to the changing market conditions □ □ □ □ ■

Human factor (trader's confidence) risk: disciplined and stringently executed risk management □ □ □ □ ■

Leverage related risk: margin to equity risk: No more than 5 % margin of an account / NAV will be in any single trade/ position □ □ □ □ ■

Currency related risk: □ □ □ □ ■

Risk posed by managed accounts - i.e. ability to manage separate account pari passu to the flagship: trade splitting: □ □ □ □ ■

Key man risk: □ □ □ □ ■

Performance Parameters

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

Annual cost of commissions and brokerage paid as a % of avg. annual net performance: lowCost of slippage as a % of avg. annual net performance: fairly lowPercentage of portfolio – on avg. allocated to OTC options (2%) vs. listed options (98%)

Efficiency achieved in putting capital to work: ■ ■ ■ ■ □

Portfolio's option profile: moderately conservativeOn avg. % of profitable vs. non-profitable trades: 75%:25% ■ ■ ■ ■ □

Diversification achieved by options in the portfolio:

On a geographic basis: EUREX options onlyOn a time horizon basis: option: 3 -6 days: option

Volatility strategies implemented: ■ ■ ■ ■ □

Trader: specialists, 4What justifies your above avg. fees? Retain trader talent

Outlook

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

Barriers to entry: Define: trading experience required; high start up costsScope of trading volatility as an asset class ↑
Ability of the fund to consistently deliver returns:Over next 3 months: yesNext 12 months: yesNext 3 years: yesFunds outperform: in fast moving markets on external shocks like earthquakes, terrorist attacks, political events of monetary (tax changes) and geopolitical significance & Fund tends to underperform when: when markets are very slow, without movementsAbility to deliver uncorrelated returns: high

Investment Insights

- Target audience: institutional investors, family offices, HNWI
- Level of complexity: high
- Fund offers: uncorrelated returns
- Geographic access: restricted to US, Singapore investors

- Currency available in: EUR
- Liquidity provided: monthly
- Transparency provide: high
- Reg. with: Swiss authorities

PRACTITIONER'S POINT: INVESTING IN PIPES



Mitch Hull has over a decade of experience, is founder of Hull Capital Management, LLC, and shares his insights on private investments in public equities (PIPEs)...

"In a PIPE offering there are less regulatory issues with the SEC" ... then why is investing in them perceived with such notoriety?

The "notoriety" in a PIPE transaction is really a function of historical biases created in the early days of PIPE investing. In the mid to late 90's PIPEs, known at the time as Reg. D Private Placements, were new to the capital markets and the dominant transaction structure was the floorless floating convertible bond. It was embraced by a vast majority (at present it constitutes 5% of the market). This structure is known more pejoratively as the "toxic convertible" or "death spiral" as a number of dot com companies that had used this structure experienced negative outcomes when the Internet "bubble burst". Many of those issuers' business models proved to be failures – and some erroneously continue to blame the PIPE structure for the same. Today, very few transactions are completed with floating conversion features.

What is peculiar to PIPEs - can you elaborate on the traditional and structured variations.

Traditional PIPEs are simple common stock transactions (usually priced at a slight discount to market) with warrants (usually struck at a slight premium with a 5-year life). Structured deals can have collateral, conversion features, straight debt, re-set provisions and lots of other bells or whistles. They are more complex and often take longer to complete. This market is unique owing to its fragmentation. It is a relationship business. There are over 400 agents marketing transactions, most of whom will do less than 5 transactions a year. A fund's deal flow is a function of its relationships. Every fund has its own deal flow. This is not like the IPO market where every major institution sees every transaction. More than it follows money; deal flow follows relationships in the PIPEs market.

Who and why should somebody consider investing in PIPEs?

Institutions, high net worth individual or other investors seeking exposure to publicly traded companies with a market capitalisation of under USD250 mn should consider investing in PIPEs. The micro cap market is volatile and choosing the PIPE route with its structure offer advantages such as better access to information, better pricing and deal sweeteners (such as warrants, anti-dilution rights, re-set provisions, etc.).

What amount and time horizon do you believe optimises returns in PIPEs?

Time horizon is a function of the investor's strategy. There are some trading oriented strategies that have an optimal holding period of less than six months. At the other end of the spectrum, are others that are effectively like public venture capital for which the optimal holding periods can be 18-36 months. The wide range of holding periods is a good indication of the numerous investment strategies and structures in the PIPE market.

Based on your experience how do you identify, monitor, mitigate and successfully: exploit the risk associated with investing in PIPEs? Which of the above is the hardest to achieve and why?

As a fund of funds, we are invested in 20 different PIPE fund managers. Our job is to know all the managers including both the funds in which we are invested as well as those with which we have not allocated capital. Deal flow and experience in the space are two of the most critical factors. Since it is such a relationship driven business that simply understanding the product is not enough.

We monitor the funds' investment activities using databases that compile the data from publicly filed documents. One of the great advantages of PIPE investing is that all the deals can be tracked and as investors we have full transparency into the investment sizes and terms. We keep overlaps to a minimum and undertake regular correlation analysis to check this on a quantitative basis. Another advantage of the PIPEs space is that two funds can invest in the same deal but they can generate different performance because their investment strategies vary. This feature helps us mitigate some of the risk posed by overlaps.

The biggest risk that requires the strictest monitoring is style drift. We have to understand the allocation (type, size) of investments that a fund makes. We need to make sure that a fund does not deviate from implementing its core strategy. Sometimes a fund will try and change its strategy to follow a hot market or deploy assets that are disproportionate to the transaction size. We believe a fund has to know what it does best and do it. If we sense that the fund is doing something different ... there is a problem.

What do you look for and what do you intentionally avoid, when you consider investing in a PIPE fund?

We look for those with extensive experience in the PIPEs space. They must be articulate, have a sound strategy and possess the required skills to execute it. If any of the above is missing then we avoid the fund. We are vigilant in identifying mismatches - for eg. a fund comprising managers with trading experience should not be focusing on a long only strategy that requires deep fundamental due diligence. We are extremely wary of managers who when asked about their strategy respond by asking us what we are looking for. We insist and strongly believe that a manager's interest needs to be aligned with ours.

Going forward, what is the scope and what according to you are the challenges?

The challenges are never ending but revolve around staying on top of the developments in the market. The PIPEs market is constantly evolving as it responds to regulatory changes, shifts in the overall stock market and general economic conditions. The market is incredibly fragmented and we need to talk to as many funds, agents, lawyers, accountants, reporters, investor relations professionals and others associated with the PIPEs business. It is our job to make sure we have a full understanding of the issues and the market so that we continue to effectively manage our fund.

Remarks/comments...

There are many advantages associated with PIPE transactions versus follow-on public offerings. These include time to market, lower cost, fewer regulatory filings and hurdles and no effect on the stock's price during confidential marketing. While the PIPE has traditionally been and will continue to be primarily a micro cap financing vehicle, larger cap companies see the advantage and are now beginning to opt for the PIPE transaction instead of the public offering. The average deal size continues to rise and we continue to see more billion dollar companies in the PIPE space.

LITIGATION INVESTING: PALM BEACH CAPITAL ADVISORS

Sovereign Litigation Investment Trust - SLIT IV

Profile: The SLIT IV trust will invest in patent infringement cases, such as the case currently filed against Intel. The trust will invest more money per case, and have only a few cases (probably 10 or less). Investors will receive an accumulated 25% annualised priority yield - and stand to receive an additional 30%. Some of these cases will take quite a while to settle, but returns can be very big or completely wiped off

Focus: patent infringement

Strength: high rewards

Weaknesses: long drawn legal settlement process

Opportunities: many poor plaintiffs

Threat: if the plaintiff loses the cases or agrees to a very low settlement

Risk: High. Patent cases are initially tried and often lost at the initial District Court level because the judge is not a patent expert. He may be swayed by a law firm hired by a strong defendant, such as Intel. Upon appeal, the case goes to a panel of expert judges. About 40% of cases are reversed on appeal. This increases the time to settlement considerably (as with the Intel case) and therefore cost. Settlements can be large and are not restricted to only cash awards, but are also required to compensate for past and future sales, ongoing license fees etc. Triple damages are awarded if the violator had been exposed to the patent violation and continued to ignore it. Many major firms can afford to ignore patent rights since the patent holder may be an individual or a small company unable to afford the legal fight. This is where the trust would participate - and it tends to level the playing field with the violator.

Ability to identify litigation cases that will be funded: Most intellectual property attorneys do not litigate on contingency. Since intellectual property has become a major asset source for companies there are specialists that seek patent violators. The trust has via its venture capital arm - access to a network of intellectual property attorneys who have clients that cannot afford to sue, but have legitimate patent infringement cases

Level of litigation expertise: very specialised - lawyers are typically MSc or PhD's in technical fields, and team up with experienced intellectual property litigators

Ability to procure relevant documentation: mandatory under US law and not too difficult under discovery rules

Ability to actually claim the proceeds due: if the plaintiff loses the case - there are no returns
After going through the appeal process, a strong defendant would normally not try to exit a judicial settlement agreement

Ability to efficiently allocate capital: not difficult as the trust has multiple sources of potential and existing cases

No. of litigation cases held in trust: a maximum of 10 cases at a time

Avg. duration litigation case last: until claims are paid out: variable - could last between 1-5 years

Life of the trust: 6 years, but returns are paid out annually as received

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 - normally three years.
Transparency provided: Quarterly distributions when available

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.

SPECIAL PURPOSE INVESTING

Investing in global Microfinance ... responsAbility

What is Microfinance?

Microfinance (mf) provides financial services for poor but economically active people in developing and transitioning countries. Access to credit and other financial services is crucial in development terms, since it promotes micro-entrepreneurial activity, which contributes towards the end of creating a stable and sustainable income stream. Unlike people in industrialised nations, access to financial services for these people is difficult to manage owing to a lack of adequate collateral.

Mf offers various financial services that are adapted to meet the needs of these people. The most important mf services include: commercial loans (micro-credit); savings (micro-savings). Other financial services include: payment services, insurance and pension funds (micro-insurance) and housing loans.

Access to micro financial services can have a positive impact on the income of micro-enterprises as it enables them to boost productivity, attain security and gain independence.

Mf thus makes an important contribution to alleviating poverty in developing and transition countries.

Peculiarities displayed by the sector?

- The key risks borne are of a political nature and presumably, the sector has a higher exposure to natural disaster risks
- Only few microfinance institutions (mfi) are regularly rated by established credit rating agencies such as Moodys, S&P
- Public transparency offered by mfi tends to be much lower than in traditional asset classes
- The virtual non existence of secondary market trading implies lower liquidity, but also less price volatility

What criteria must micro finance institutions satisfy to be selected in the "responsAbility" portfolio?

In general, the minimum requirements for mfis to qualify for an investment are:

- Total assets amounting to at least USD 1 million
- Successful organizational track record of at least 5 years, including externally audited annual reports
- Sound business plan; superior quality portfolio
- Profitability or the ability to break even within a reasonable time frame
- Legal status that enables borrowing from abroad via Promissory Notes

At what stage do you tend to lend money?

We tend to invest in mature institutions but we also consider less mature micro finance institutions. In fact, we have already financed some start-up initiatives that show a strong growth potential.

Do you have studies/statistics to show that it is favourable to invest in certain geographical areas?

Our target is to diversify globally with an emphasis on attaining maximum exposure for individual countries. We tend to minimise allocations to those our research qualifies as "high risk countries." The specific regional target allocation is defined by our investment committee on a yearly basis. It is determined by the objective of achieving high global diversification. Also borne in mind would be the current status of our portfolio. Currently the mf investment opportunities are mainly to be found in Latin America and Eastern Europe – hence the portfolio is currently overweighed in these markets.

Do you believe those interested in investing in microfinance, are all chasing the same names?

Only around 200 of the estimated 10'000 mfis worldwide are currently accessible to private investors. Hence, there is a certain concentration. Nevertheless, this is changing on two fronts. First, international donors (currently still one of the main financing sources for leading mfis) are drawing back on their engagements. Simultaneously the private sector is playing a more active role. Secondly, we are witnessing the rapid evolution of a breed of professionally managed mfis which are structured to and are capable of accepting private capital.

How do you uncover new names in the space?

Thanks to our reputation and solid track record of being one of the fastest growing funds in this space. We are perceived as being a reliable and efficient partner. Additionally, we are also the only fund that works with several investment partners specialising in microfinance investment placements and have so built relationships with the leading Microfinance Networks.

Do investments in micro finance display cyclical behaviour patterns?

Generally no, the industry is rather stable as the main business is micro and small enterprise financing - which serves the basic needs of a population. As small consumer credits are becoming an increasingly important business for some mfis - this might change. Due to the media limelight - the microfinance industry is awash with 'cheap' money from donors, foundations, etc. This is exerting some downward pressure on the interest rates. We believe this is a transient phenomenon that will likely fade after:

- a) the undue attention has shifted
 - b) a consolidation among mfis and Microfinance Investment Funds takes place
- How long this will take though, is difficult to say.

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