

LOAN BASED LENDING

CypressTree Leveraged Alternative Income Fund, CLAIF

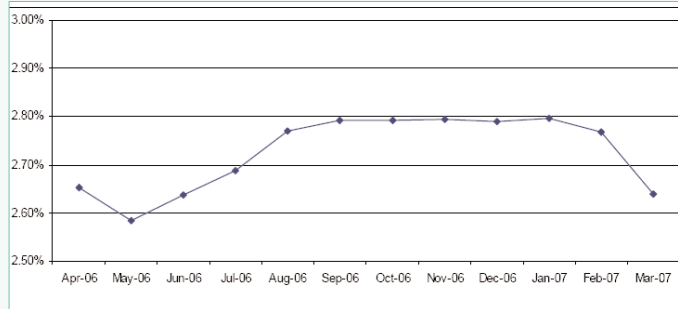
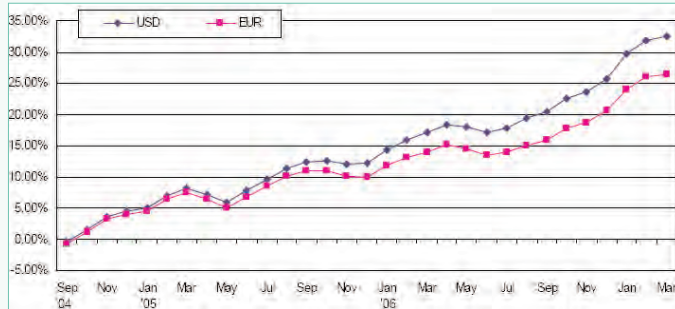
Focus: The fund invests in a diversified portfolio of senior secured floating rate corporate loans and generates its core income from spread and price appreciation leveraged through total rate of return swaps

Strengths: Expert loan management team with an average of 25 years of senior loan and high yield experience, assets under management enables the fund to stay nimble

Weaknesses: Returns optimal for those with a medium to long term outlook

Opportunities: Loans have little interest rate risk (floating rate), low correlation to most asset classes, low volatility and perform better than high yield bonds in a weak economic cycle

Threats: A weakening of the general economy or of certain sectors of the economy is what usually drives the default and credit cycle



CLAIF's total returns since inception

Weighted average spread

source: CLAIF

Risk

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

• Define the major risks - credit risk, default risk, spread risk

• Credit analysis skills □□□□■

• Ability to detect and avoid company specific problems □□□□■

• Expertise in identifying earnings and credit deterioration □□□□■

• Ability to act in a timely fashion if a change in credit quality is expected □□□□■

• Ability to identify and take advantage of cheap secondary transactions □□□□■

• Counterparty risk (in the case of total return swaps) □□□□■

• Default related risk: under normal market condition – negligible to low owing to a well diversified portfolio

• Currently: 0.56% per annum

• Leverage related risk: □□□□■

• Currency risk: 75% is invested in USD the remainder in EUR and GBP

• Market risk: □□□□■

• Key person(s) risk: □□□□■

Performance Parameters

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

• Currently the portfolio comprises of: 242 issuers- no. of Industries: 34

• Avg length positions are held: 2.5 years

• Expertise in portfolio construction: ■■■■■

• Diversification:

• Issuer: ■■■■■

• Geography: ■■■

• Credit rating: ■■■

• Spread: ■■■

• Industry/Sector: ■■■■■

• Cyclical: ■■■

• Maturity: ■■■

• Liquidity: ■■■■■

• 14.37% of the loans are privately rated (no. of privately rated loans divided by total number of loans in CLAIF)

• In case of a default (under normal market conditions) ability to liquidate position without incurring a loss: ■■■■■

• Ability to reclaim loaned amount as a % of the portfolio:

• Under normal market conditions: at par

• Under distressed market conditions: prefer not to sell

Outlook



upside potential



upside to range bound



range bound



range bound to down



downside

• Barriers to entry: network and ability to secure loans

• Scope for a loan based fund: ↑

• Threat posed by competition: limited

• Ability to deliver non correlated returns to traditional assets ↑

• Fund's ability to deliver targeted returns: Over the next 12 months: high

• Suitable for inclusion in: a conservative portfolio; balanced portfolio

• Fund's worst case scenario: The worst-case scenario would be a widespread economic and credit downturn in the US, which would involve several sectors, and trigger an increase in default rates and a decline in recovery rates. Loans are likely to trade down in anticipation of elevated defaults, to a discount from the current premium levels. Spreads/discount margins would widen accordingly, but it will take some time for the fund's portfolio to be turned over to take advantage of wider spreads.

• Fund's best case scenario: The best-case scenario: a zero-default environment, along with loan price appreciation and wide spreads. The historical reference of such environment is 2003, when loan principal performance exceeded 2.5%, and spreads were over 300 bps

Investment Insights

• Target audience: institutional investors, pension funds, high net worth individuals

• Suited to those looking for: consistent returns with low volatility

• To optimise returns, recommended avg. holding period: min 3 years

• Geographic restrictions: Offshore, Guernsey domiciled, non-US investors only

• Fund's base currency and other currencies it is available in: USD, EUR, GBP

• Complexity grade for an investor: moderate

• Transparency provided by fund's management: fairly high

• CypressTree Investment Management Company, Inc. is registered with the SEC

• Awards/ratings: Ranked no. 3 by HFM for Fixed Income Fund over 1B in February 2007