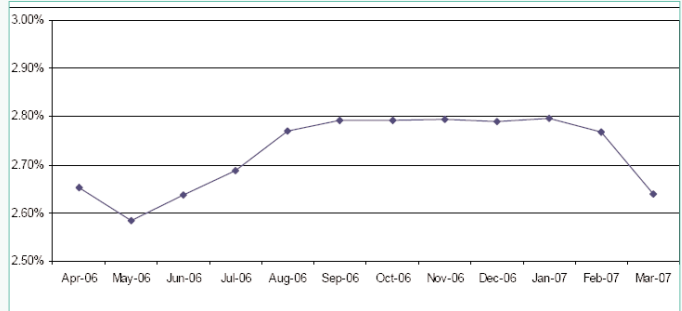
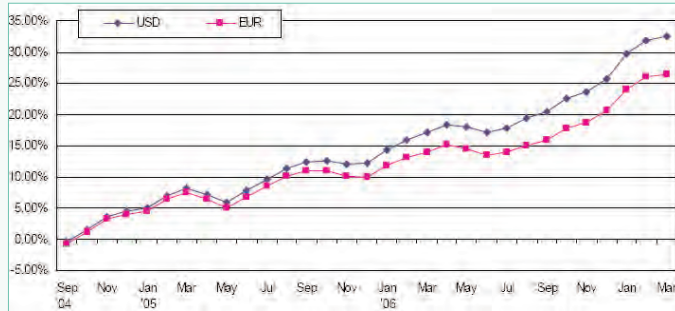


LOAN BASED LENDING

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



Risk Management

- 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

- 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: ☒☒☒☒☒
- Cyclicality: ☒☒☒
- 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

- 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