

LOAN BASED LENDING

CypressTree Leveraged Alternative Income Fund, CLAIF

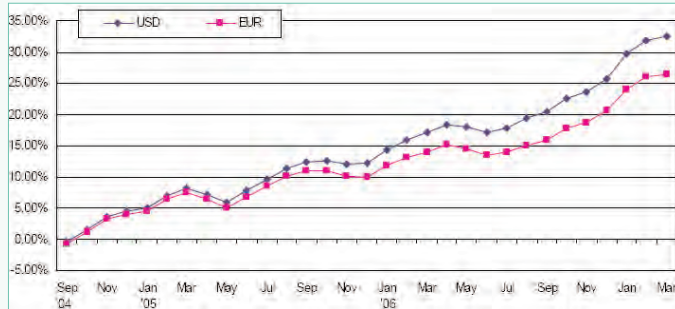
Focus: The fund invests in a diversified portfolio of senior secured floating rate corporate loans and generates its core income from spread and price appreciation leveraged through total rate of return swaps

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

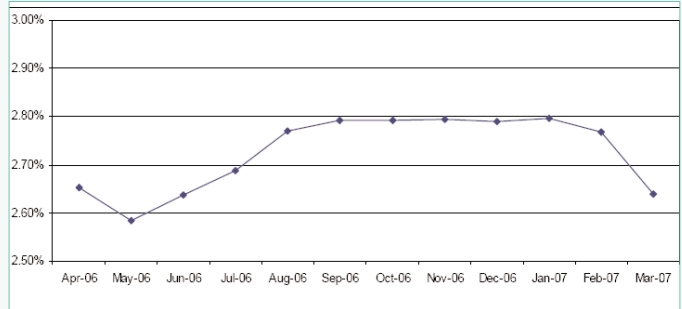
Weaknesses: Returns optimal for those with a medium to long term outlook

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

LITIGATION FUNDING



“Litigation Funding is here to stay”...Over the last eight years **John Walker** has developed highly specialised skills in providing funding for and managing insolvency, commercial and multi-party litigation. He is managing director of IMF (Australia), which is the largest litigation funder in Australia.

Why is litigation funding perceived as controversial and do you really think it is?

Any perception that litigation funding is controversial has been dissipated in recent years. Majority of the participants in the Australian capital markets and legal market have heard of IMF and understand that litigation funding is here to stay. Those who might perceive it as controversial fail to appreciate that litigation funders play a similar role to insurers, who regularly fund and control legal proceedings on behalf of the insured. Litigation funders can balance the scales by providing similar funding and management services to plaintiffs.

Why is litigation funding more established in Australia?

IMF (Australia) Ltd listed on the Australian Stock Exchange in 2001. The decision to list the company was based on a premise that the courts would allow litigation funding to expand outside the insolvency arena (insolvency practitioners had been able to seek financing for litigation from third parties since 1996). The premise proved to be right. Since IMF's listing, a number of Australian courts have decided that third party funding does not amount to an abuse of the courts' process, citing the importance of facilitating access to justice. This view was recently confirmed by the High Court of Australia.

How investable is this space? What are the different litigations, investment horizons and investment vehicles available to an investor?

IMF funds three types of cases: group actions, commercial actions and insolvency-related actions. The maximum value of claims in IMF's portfolio as of 31 December 2006 (in matters where IMF expects to receive a fee of more than AUD500,000) amounted to AUD 923 mn. Based upon 200 completed cases, IMF has won at trial or settled 80% of its matters. IMF has received an average return on its investment of about 2.5 times.

Investors have the opportunity to invest in IMF through its publicly-listed securities which trade on the Australian Securities Exchange. In the future, there may be the opportunity to invest in particular portfolios of IMF-funded cases.

What are the risks and how can they be managed, monitored, controlled, mitigated and exploited?

In Australia, the losing side must pay the winning side's costs, so the biggest risk to funding litigation is an order to pay the costs of the other side if the case fails. This risk is managed via an extensive due diligence process, which IMF undertakes before it decides to provide funding. This process examines in detail the claim, the claimant, the quantum, any likely defences and the defendant's capacity to pay any judgment. Funding is only provided once these criteria are satisfied.

Once litigation is funded, the two main risks are: (a) delays to the resolution of a case; and (b) costs being more than anticipated. IMF addresses the later risk by seeking budgets from the lawyers and seeking to cap the amount payable by IMF to those budgets. A “hands-on” approach to management of the litigation, and the provision of instructions to the lawyers, reduces the potential for delay.

On average, do the rewards outweigh the risks?

This question is best answered by looking at IMF's recent performance. IMF has successfully resolved six matters since June 2006, resulting in cash receipts of AUD26.5 mn (on an amount invested of AUD9.77 mn – representing a return on investment of 170%, over a three year period).

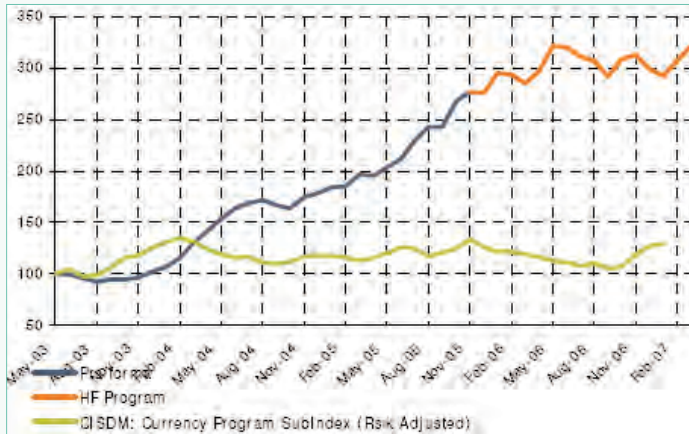
What are the challenges going forward? Do you see it gaining ground in other jurisdictions (and which ones)?

One challenge facing litigation funders is government regulation. The Attorney-Generals of the Australian states are currently considering a model to regulate funders. But IMF is generally supportive of such efforts and is requesting that insurance companies also be considered in any measures to regulate litigation funders. Other challenges involve insuring that lawyers and the courts focus their attention on the just, quick and cheap resolution of the real issues in legal proceedings; that lawyers operate within budget and chart reasonable timetables.

We think litigation funding will become more common in other jurisdictions, especially the United Kingdom, where the Civil Justice Counsel recently published a draft report (February 2007) which said “properly regulated third party funding of litigation should be recognised as an acceptable option for mainstream litigation.”

CURRENCY TRADING

Overlay Asset Management High Frequency Program



Comparative performance since June 2003

source: OAM

Focus: The high frequency investment strategies applied in this program aim to take advantage of the short-term volatility that exists intra-day in currency markets, irrespective of whether individual currency pairs are exhibiting trends or not. This program is designed to extract value from the currency market micro structure where short-term opportunities generated from transaction flows can be analysed and exploited

Fund's strengths: The strategy is purely model-driven; diversification is achieved by the application of a number of sub-models (based on short-term technical indicators), each providing high frequency trading signals on an intra-day basis, across a limited number of highly liquid currency pairs. The re-engineering of several popular technical indicators, augmented with probabilistic attributes are used to determine the likelihood of emerging trends or turning points

Fund's weakness: High frequency models "fatigue" faster than their long-term strategy counterparts

Opportunities: The strategy uses short-term technical indicators such as Commodity Channel Index (CCI), Slow Stochastic and ADX on hourly data set combined with a proprietary algorithm that is able to select and adapt the optimal parameters suited to the prevailing market conditions; source of non-correlated returns

Threats: Models need to be frequently reviewed so that they stay adaptive (entails depth of analysis and extensive research) which is investment intensive

Risk

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

What is the major risk for the high frequency strategy? A failure in renewing the process and models

On avg. percentage of trades that are positive? since inception, the strategy gets 49.86% positive daily returns, which is in line with industry average

Models ability to isolate, capture, and execute trades to optimise profits: ☐☐☐☒☐

Speed of execution trades: High. Trades are made via electronic platforms

Inherent proprietary model based risk is: ☐☐☒☐☐

Risk posed by human interference: ☐☒☐☐☐

And with what consequences: human interference has some impacts on slippage

Ability to implement disciplined and stringently executed risk management: ☐☐☐☒☐

Leverage related risk: Average exposure/capital is 1.6

Risk posed by managed accounts - i.e. ability to manage separate account pari pasu if they are identical: ☐☐☐☐☐

Key man risk: ☐☐☒☐☐

Performance Parameters

☒ =insufficient ☒ =adequate ☒ = satisfactory ☒ = good ☒ = outstanding

Annual cost of commissions and brokerage paid as a % of avg. annual net performance: 1%

Cost of slippage as a %of avg. annual net performance: On a long-term basis, it has no impact on returns

Fund's ability to provide diversification with other currency strategies: ☒☒☒☒☐

When introduced in a conservative portfolio: ☒☒☒☒☐

When introduced in a balanced portfolio: ☒☒☒☒☐

When introduced in an aggressive portfolio: ☒☒☒☒☐

Outlook

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

Barriers to entry: high start up and maintenance costs; know how - practitioners with strong skills in finance and mathematics

Scope for a currency high frequency fund: long-term investor looking for uncorrelated source of alpha

Threat posed by competition: moderate

Ability of the fund to consistently deliver returns:

Over next 3 months: range bound

Next 12 months: upside to range bound

Next 3 years: ↑

Under what circumstances does the fund tend to outperform? short term opportunities generated from transaction flows can be analysed and exploited

Under what circumstances does the fund tends to underperform? short term sharp moves in volatility

Ability to deliver uncorrelated returns to other asset classes: low with respect to hedge funds and negative with respect to the S&P500

Investment Insights

Fund is targeted at: institutional investors, pension funds, hnw

Targeted returns: 25%-30% annualised

Fees: 2% management / 20% of net new profits

Fund's base and other currencies it is available in: USD (On demand in EUR and GBP)

Liquidity provided: weekly

Fund complexity for an investor: moderate

Transparency provided to investor: fairly high

Reg. with: OAM is regulated with the "Autorité des Marchés Français" (AMF)

Awards: Nominated currency manager of the year from 2003 to 2006 by Global Pension. Ranked TOP 3 performers of Parker currency Index in February 2007

ART: OLD MASTERS

A Square's Art Series with Philip Hoffman.¹ - II

Focus: Old Masters

Description: Old Masters is the blanket term for works by the highest echelon of European artists that were produced circa 1300-1800. Artists were extensively trained in the professional workshops of other artists, often working with family members, and were highly dependent upon individual patrons to commission works. (This is in contrast to today's gallery network of artist promotion!) During this long period, the strongest regional movements were consistently in Italy, and in what is now the Netherlands. There is an equally strong market for Old Master works on paper, including drawings and prints, but the main market focus is still paintings.

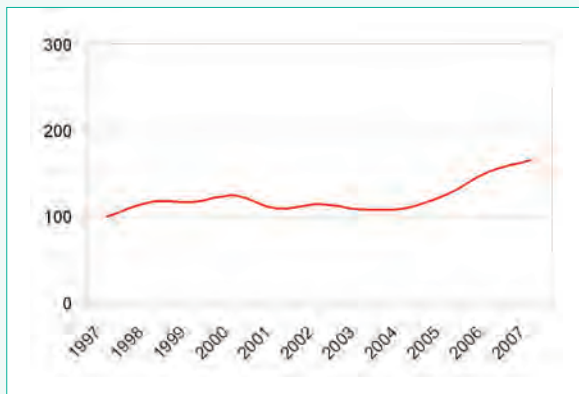
Renowned Old Master painters include the Italians:

- Michelangelo, Leonardo da Vinci, Titian, Raphael, Tintoretto, Veronese and Caravaggio
- The later Italians Canaletto and Bellotto, as well as
- The Dutch and Flemish painters Rubens, Vermeer, Bruegel, Frans Hals, and Rembrandt

• The world record price for an Old Master painting sold at auction continues to be held by Ruben's painting *Massacre of the Innocents*. It sold at Sotheby's London in 2002 for a record sum of GBP49.5mn*. Currently on display at the National Gallery in London, this painting had been 'lost' since the 1920's and unleashed frenzy on the market with its reappearance.

Strengths of the Old Masters Market:

- Prices for paintings of great skill and historical importance are still considerably lower than those painted by artists of this century
- The Old Masters market is much less popular today than the Contemporary market - hence there are fewer buyers fighting over the same works, and prices do not rise to the same heights
- This market works less on trend, and more on a simple equation of supply and demand
- As more works of high quality are purchased by museums and institutions, there are less and less quality works on the market, and the remainder steadily rise in price
- The steady upward gains achieved by this market act as a perfect foil to the more volatile Contemporary market when compiling an art portfolio or when one chooses to invest in art via a fund vehicle



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

Graph shows: 100 EUR invested in 1997 in the Old Masters has risen to 180 EUR over the 10 year period (Data source: Art Market Research)

Weaknesses of the Old Master Market:

- Works of highest quality tend to remain "off" the market - (tend to be displayed by museums)
 - Very rarely do 'fresh' works come to the market and when they do, they command top prices
 - Condition and title are very relevant issues and must be taken into consideration in all purchases and sales
 - Proving authenticity of works can be extremely difficult owing to the dissenting views held by experts
 - Only works of highest quality consistently sell for top prices.
- Works by lesser artists and less important works by top artists have yet to see significant gains in price and can affect the overall tracked performance of an artist
- The market moves much slower than the Contemporary market, with fewer globally important auctions and art fairs.
 - In comparison to the more than 25 important Contemporary art fairs, there are less than 5 important Old Masters fairs - the most important, the TEFAF in Maastricht, has since allowed sale of Contemporary art works in order to attract more buyers
 - As the market moves slower, and a longer hold strategy is crucial to cultivate potential price increases in a collection

Opportunity:

- Discovery of an unknown or lost work by a master, such as Rubens painting mentioned above
- A portfolio of lesser known Old Master painters may appreciate in value as works by top tier artists are scarce; consequently art historians and museums will start re-evaluating the worth of works left on the market
- Adding Old Masters to a wider art portfolio, including Impressionists, Modern Art and Contemporary, adds to diversification within the art market
- This market is more robust when compared with other art markets

Threat:

- An art market crash, although this sector is less speculative than others
- A financial market crash, although it should be noted that art has a very low, even negative, correlation to other traditional asset classes

Risks involved:

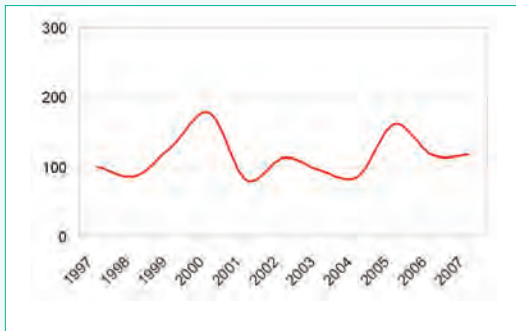
- Theft/ Damage/ Provenance/ Title issues are more important than in any other sector
- Condition issues are common and works need to be inspected by leading experts
- Provenance and title need to be carefully obtained, as works could potentially be 'Nazi war loot'

ART: OLD MASTERS

- The Art Loss Register is crucial to determine if something has a claim or has been lost or stolen
- Authentication of a newly discovered work can be near impossible
- As with all sectors of the market, getting caught in market inefficiencies, i.e. transaction costs via galleries and auction houses
- The hold rate could be longer than anticipated owing to non market movements

Performance:

- With proper due diligence and market experience, the above risks can be minimised and/or avoided
- As with all sectors of the market, 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



• Graph depicts:

For example, Dr. Rachel Campbell tracked the market of **Giovanni Antonio Canale (Canaletto)** (1697-1768), an Italian painter who was famed for his views of Rome, Venice and England. On average, 100 EUR invested 10 years ago in 1997 would have a value of only 110 EUR in February 2007 (Data source: artprice.com)

- This mere increase over the ten year reflects that not very many great works by **Canaletto** were on the market, but as when and if they did show up (such as in 2000 and mid-2005) they evidenced a sharp spike in price
- An exceptional painting by **Canaletto** will fetch an exceptional price ([auction record stands for a painting in 2005 which sold for GBP18.6 mn at Sotheby's London](#)), whereas an average work (perhaps with condition issues, or if it has been previously on the market) will not.

Forecast:

- For works of great quality, provenance, and condition, painted by the most important artists, there is always going to be a potential for investment. Due diligence and expertise are crucial to determine this
- The market should continue with steady growth and more people will turn to this market to buy paintings of lasting value and beauty, as more and more people become disillusioned with the mounting prices of the Contemporary market

Comments/remarks:

- Lesser known museums to visit
- The Frick Collection, New York, NY
- The Wallace Collection, London

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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