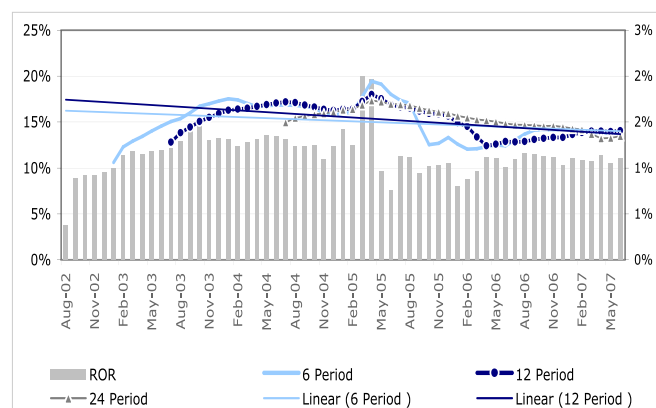


ASSET BACKED LENDING



Fund's return analysis

Source: Aarkad Plc.

AARKAD PLC, HEATHER PARTNERS

Focus: • Collateralised money lending.

Aarkad invests in a master fund Heather Capital Ltd. Heather Capital has a diversified portfolio comprising:

- Highly collateralised structured finance loans, of short term duration (3-12 months) secured loans, collateralised by commercial property in the UK & Ireland
- Other loans could include mezzanine finance on commercial property throughout the UK
- Non-performing debt with favourable recovery attributes (purchased at a significant discount)

Strengths: • Commercial property lending history in the UK and Ireland, asset based lending experience and expertise, network

• Delivered consistent returns since inception (only one month under 1%, no losing months)

Weaknesses: • Capacity constraints, after a point, in order to achieve and maintain efficiency in asset allocation and performance

- Liquidity

Opportunities: Open ended bridge finance is an area that has long been deserted by banks (needs to be underwritten on a case-by-case basis)

Threats: Default/fraud related risk (fund not subject to title fraud as there is a centralised government UK-run Land Register unlike the US)

Risk Management

Low Low / Moderate Moderate Moderate to High High

- Ability to secure deal flow: ☐☐☐☐☒ Heather is connected to more than 14,000 brokers in the UK of which 300 provide deal flow on a regular basis)
- Risk associated with collateral valuation and pricing: ☐☐☐☐☐ Independent Royal Institution of Chartered Surveyors (RICS) valuation professional indemnity insurance (PII) Cover, all collateral must be repossessable
- Legal risks: ☐☐☐☐☐ (loan documentation verification as in case of a default, documentation relating to the loan must stand up) Independent attorneys on all deals, PII cover - in-house double check, government land register detailing all current and previous owners, and all loans whether fully or partially discharged
- LTV ratios: sufficiently conservative: (typically manager does not lend more than 70% of the value of the collateral securing the loan)

- Ability to recover loan amount under normal mkt. conditions: ☐☐☐☐☒ (since fund's inception, only one loan has defaulted - however, the fund recovered 100% of loan amount + associated costs)
- Operational risk: ☐☐☐☐☐ (origination, collateral valuations, collateral monitoring, default procedure)
- Does not loan money for more than 12 months and extensions are not permitted
- Fraud risk/Default risk: ☐☐☐☐☐
- Prepayment risk: ☐☐☐☐☐
- Leverage used: None
- Currency risk. hedged
- Largest investor risk: ☐☐☐☐☐
- Key man risk: ☐☐☐☐☐

Performance Parameters

Low Low / Moderate Moderate Moderate to High High

- No. of loans currently in the portfolio: 130
- Performs under most market scenarios: ☐☐☐☐☐ (owing to conservative loan to value ratios pursued)
- Capital utilisation ratio: ☐☐☐☐☐

- Diversification:
- Geographic: Solely UK & Ireland
- By allocation:
- Commercial property: 92% first lien, 8% (second lien) (98% portfolio :fully recourse; personal guarantee)
- Duration: 3-12 months (an avg. loan lasts 7 months)

Outlook

- Barriers to entry: High
- Competition: No bearing
- Probability that the fund will deliver targeted net annual performance over:
 - The next 12 months: High
 - The next 3-5 years: Realistic
- Scope for the strategy: Upside to range bound
- Scope for the fund: Upside to range bound
- Fund out performs when: Commercial real estate market passes its peak and more highly leveraged banks with less conservative LTVs run for cover

Investment

- Aarkad's Current AuM: USD338 mn
- Aarkad Max. AuM: USD550mn
- Fund's base currency: USD
- Targeted at: Sophisticated investors
- Recommended holding period to optimise returns. Min.12 months
- Geographic restrictions: None
- Transparency: Investors are welcome to review loan documents, on a confidential basis, and on site

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