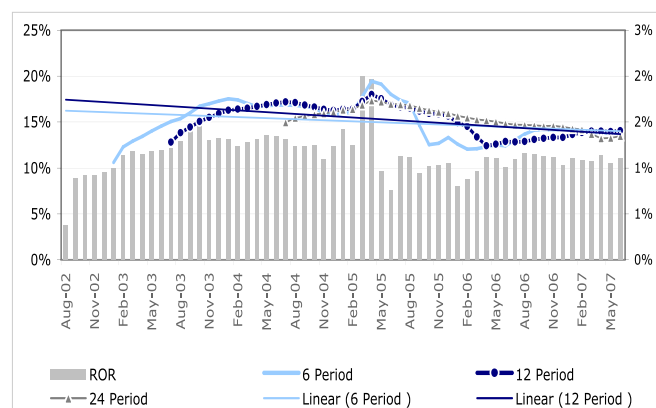


ASSET BACKED LENDING



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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AIRCRAFT LEASING SECTOR-LED OPPORTUNITY

Strengths:

- To accrue operating and cost efficiencies, many airlines acquire new aircraft through leasing as opposed to making and bearing the burden of a direct purchase
- Shift toward leasing owing to carrier consolidation; focus on core competencies
- Lessors offer the most cost-effective and flexible options in the business: **innovative structures that combine financial market exposures with traditional insurable risks help advance a client's specific balance sheet goals**

Weaknesses:

- Cyclicity of the industry: **aviation industry financial cycle**, generally believed to be around 8 to 9 years
- There are costs to shifting aircraft around (**lessor must know how to manage these costs**)

Opportunities:

- It is expected that by the year 2010,
50% of the world's fleet of passenger and freighter aircraft will be on operating leases
- Significant growth rates in passenger and freight demand
- Fundamental market shift in the behaviour of airlines
(**shift in their aircraft requirements from ownership to operating leases, as this allows airlines to release capital for expansion, improve financial ratios and maintain a constantly modern fleet of aircraft**)

Threats:

- Global GDP growth slows considerably/slides unexpectedly
- A sustained escalation of airborne terrorism; sharp sustained spike in fuel prices

Risk Management:

- Insurance coverage for aviation risk: (**traditional aviation insurance and risk management programs**)

Lessor skills:

- Ability to develop and analyse new leasing products
- Structured financing expertise
- Asset and portfolio management

How it works:

Allco Finance, for instance,

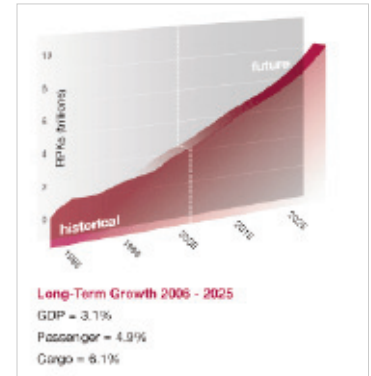
- Divides all operating leases into two streams - the lease receivable and the residual asset risk.
- This allows the firm to take on the residual risk on the asset value whilst limiting the risk to the lease receivable.
- The residual value risk is managed through careful purchasing and management strategies.
- All passenger aircraft purchased are standard configuration, suitable for a wide user base and possible freight conversion at a later date.
- The value and re-marketing of these aircraft is ensured as the firm plays an active role throughout the lease. (aircraft undergo regular assessment and maintenance throughout their lease term, including ongoing physical inspection by independent technical engineers)

Players:

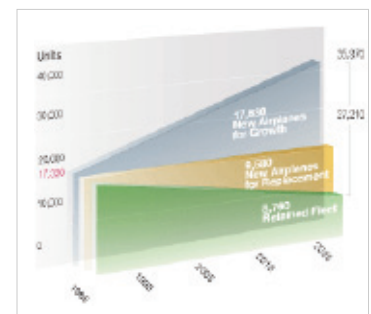
- International Lease Finance Corporation, (ILFC) a wholly-owned subsidiary of American International Group, Inc. **Owns a portfolio valued at more than USD48 bn, consisting of nearly 900 jet aircraft**
- AWAS, Terra Firma's existing aviation leasing business (Terra Firma bought Pegasus) to create the third-largest aircraft lessor
- Allco Finance, the Australian infrastructure asset manager structure lease transactions that are mutually beneficial to both customers and shareholders
- Babcock&Brown Aircraft Management (BBAM): **Manages a portfolio valued at USD5.8bn, comprising 219 leased commercial jets**. Currently, BBAM is the leading arranger of syndicated aircraft finance in the Japanese market and manages the world's sixth largest portfolio of leased commercial jets by value.
- Australian bank Macquarie

Investment opportunities:

Notes, structured products, hedge funds

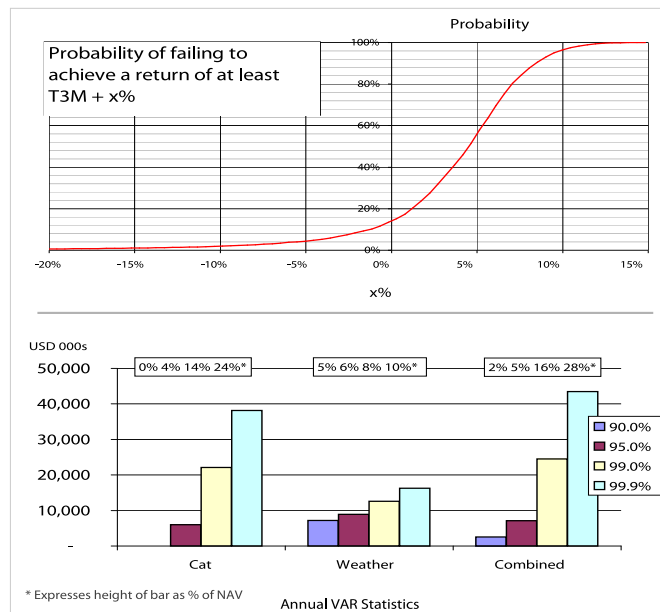


Aviation industry: strong long term growth
Source: Boeing, IATO, ICAO
(RPKs, revenue passenger kilometers trillions)



Long term demand for new aircrafts remains strong
Source: Boeing, IATA

INSURANCE AND WEATHER LINKED INVESTING



Fund's Risk Management

Source: Coriolis Capital Ltd.

Risk Management

- The occurrence of: One or more major natural catastrophes, man-made catastrophe or mortality event; one or more extreme weather events over a sustained period of time
- Weather derivative risk: counterparty risk exists for OTC traded options
- Currency risk: hedged
- Leverage: max. 2:1
- Allocation conflicts of interests with other funds; managed accounts: (managed pari-passu)
- Key man risk:

Low Low / Moderate Moderate Moderate to High High

- Cat bonds:
 - How much does the spread reflect the expected value: ☐ ☐ ☐ ☐ ☐
 - Pricing risk: ☐ ☐ ☐ ☐ ☐
 - (Cat bonds - secondary market markers' independent prices)
 - Valuation risk: ☐ ☐ ☐ ☐ ☐
 - (for both pricing & valuation, exposure to the underlying risk cannot be manipulated)
 - Counterparty risk is very low for cat bonds, except for cat options

Performance Parameters

Low Low / Moderate Moderate Moderate to High High

- No. of positions: 100-150
- Standard Deviation of fund's monthly returns (annualised since inception): 0.93%
- Ability to deliver consistent, uncorrelated returns since inception: ☐ ☐ ☐ ☐ ☐
- Diversification:
 - Credit restrictions on short term investments:
 - 20% limit on one issuer (securities) and
 - 15% restriction applies to any climatic specific risk
 - Geographic: global (limit per region)
 - Instruments: cat bonds (diversification within peril opportunities), weather derivatives
 - Duration: cat bonds avg. 2-3 years; weather derivatives 3-12 months

Outlook

- Barriers to entry: Expertise
- Scope for Cat bonds and weather derivatives: Upside potential
- Fund outperforms when:
 - Cat bonds: rising reinsurance rates, absence of significant natural catastrophes
 - Weather derivatives: good diversification of deals (weather outcomes less volatile than generally perceived)
- Fund underperforms when:
 - Cat bonds: falling reinsurance rates, excess reinsurance capacity, occurrence of significant natural catastrophe affecting the fund's assets
 - Weather derivatives: low diversification of transactions
- Scope for a fund such as Horizon: Upside to range bound
- Threat posed by competition: Growing but limited

Investment

- Current AuM: USD158 mn
- Targeted AuM: USD 300 mn
- Recommended holding period to optimise returns: Min.3 years
- Restrictions: Not available to US Investors (however, a similar fund is available to US investors)
- Targeted at: Sophisticated investors
- Transparency provided: High
- Investment adviser: Authorised by the FSA
- Listed on the Irish Stock Exchange

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A SQUARE'S ART SERIES WITH PHILIP HOFFMAN.¹ - V RUSSIAN ART

Description:

Russian art consists of a great many media and movements. For example, the June 2007 Russian sale at Sotheby's in London consisted of over 600 items, including a marble bust of Catharine the Great, varied paintings including a number of popular 19th Century romantic landscapes, and even a *Fabergé* cigarette case. Russian art has always played a major role in western art sales and collections, with the work of [Kandinsky](#), [Chagall](#), [Jawlensky](#) and [Malevich](#) consistently appearing at top Impressionist and Modern auctions. Now some of the names that were only well known in Russian circles are starting to command top prices. Antiquities, such as icons, furniture and jewellery would also be considered part of this market.

Movements and Artists:

- Icons (pre-Twentieth Century)
- Avant-garde (approximately 1890-1930):
[El Lissitzky](#), [Kazimir Malevich](#), [Wassily Kandinsky](#), [Alexander Rodchenko](#), [Marc Chagall](#)
- Symbolism (end 19th Century, start 20th Century): [Mikhail Nesterov](#), [Victor Borisov-Musatov](#)
- Contemporary: [Ilya & Emilia Kabakov](#), [Eric Bulatov](#), [Irina Korina](#)

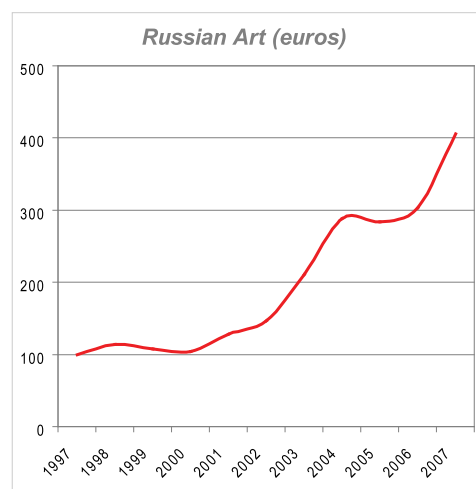
The Russian art market has been flourishing over the last decade owing to the simultaneous boom experienced by the former Soviet Union's industry. Rising wealth has bred a new group of collectors with nationalistic buying trends. Jo Vickery, head of Sotheby's Russian department was quoted in *The Economist* on 6th June, 2007 saying that the Russian market was previously controlled only by Russian *émigrés* and collectors with "old" Russian connections. She says, "Now, over 80% of our buyers are Russians from Russia, buying back their heritage. These buyers are serious collectors, increasingly market-savvy, ready to pay a great deal of money for the best pieces".

Christie's and Sotheby's have both witnessed a quantum leap in Russian art sales. For example, Sotheby's first sale of Russian avant-garde and Soviet contemporary art in Moscow was held in 1988 - since then this house has seen this market consistently increase. In 2006 they sold GBP86mn worth of Russian Art, which rose 43% from the previous year, and appreciated twenty times since the GBP4mn that they sold in 2000. They have just opened a new Russian office and are also consistently previewing important lots from their major London and New York Impressionist, Modern and Contemporary sales in Moscow, as these buyers are not just buying Russian art, but are also contributing to the movement of the Western market as well.

- The world record price for a Russian work of art was fetched at Christie's London in November 2006 for the painting *Pastorale Russe*, by [Konstantin Andreevich Somov](#), which sold for GBP2.7mn.
- Contemporary Russian art has yet to progress to the price niveau commanded by historical works
- Today the Russian Contemporary market has a turnover of less than USD20mn per year - this is anticipated to change.

Strengths of the Russian market:

- This is a very wide market, as there is a varied array of artworks and antiquities that can potentially come to the market
- Works of historical importance are fetching higher prices than Contemporary works, which follows what some would consider, a natural progression of the market
- There is an extensive wealth base looking to enter the art market
- Once older 'historical' works of quality become scarce and stop trading hands, other areas of the market will also strengthen, such as Contemporary, as the collectors move forward.
- Historical works tend to largely appeal to Russian collectors, but avant -garde works have long



Graph shows: 100 EUR invested in 1997 in the Russian market has quadrupled in value over the 10 year period.

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

Data Source: Art Market Research

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A SQUARE'S ART SERIES WITH PHILIP HOFFMAN.¹ - V

RUSSIAN ART

been strong in the global art market and will continue to rise even more in value as Russians drive prices up. For example, Christie's London placed two paintings by avant-garde artist [Natalia Goncharova](#) in their June 2007 Impressionist and Modern evening sale, and one painting from 1909, *Picking Apples*, sold at thrice its estimate (GBP4.9mn), making [Goncharova](#), the new record holder for the world's most expensive female artist. The buyer was Russian.

- All areas of the Russian art market should appreciate in value as the base of Russian collectors continues to widen

Weaknesses of the Russian Market:

- Historical works do not appeal to non-Russian buyers
- The Contemporary market has yet to take off – which makes it an interesting investment opportunity
- Russian buyers are getting increasingly involved in the Western market and might turn their attention and cash flow towards this area, creating a drop in their own market
- Condition and title are very relevant issues in the areas of icons, jewellery, etc. and must be taken into consideration in all purchases and sales
- There are several forgeries on the market. [Marc Chagall](#) is reportedly the second most forged artist in the market, [Amedeo Modigliani](#) being the first. Icons have been forged for centuries.
- This market hinges on the fortune of the Russian industrialists
- Russians do not like to be seen as publicly collecting and do not spend money in their own country.
- Art fairs and exhibitions in Moscow are not successful as the majority of Russians purchases are in London and New York.
- Money-laundering can be an issue
- Contemporary artists can be censored and controlled by the government, limiting their creativity and free expression of political views

Opportunity:

- A portfolio of young artists would be relatively inexpensive and should accumulate in value as these artists receive global promotion and acclaim.
- A portfolio of avant-garde painters should increase in value as works by top tier artists get scarcer, and a re-evaluation of some of the lesser known artists begins

Threat:

- Political instability
- A financial market crash in Russia

Risks involved:

- Theft/ Damage/ Provenance/ Title issues are very important, as is verification of authenticity
- Authentication of a newly discovered work can be virtually impossible
- As with all sectors of the market, getting caught in market inefficiencies, i.e. transaction costs via galleries and auction houses

Forecast:

- Continued strength and financial growth of Russian industrialists, will sustain growth across all sectors
- Within Russian history, there are many artists that are appreciated by both Western collectors and by Russians, and competition for top work is going to drive up the market.
- Russian contemporary art has not yet reached a level that comes even close to that of the West, and already curators and gallerists are uncovering new talent. The Russian Pavilion was one of the most talked about at the 2007 Venice Biennale.

(*All prices are approximate and if sold at auction include the buyer's premium)

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)

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APPENDIX

Aarkad's Performance Since Inception

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|-------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 2007 | 1.10% | 1.08% | 1.07% | 1.14% | 1.05% | 1.11% | | | | | | |
| 2006 | 0.80% | 0.88% | 0.96% | 1.12% | 1.11% | 1.01% | 1.09% | 1.16% | 1.15% | 1.13% | 1.12% | 1.03% |
| 2005 | 1.42% | 1.25% | 2.00% | 1.96% | 0.96% | 0.76% | 1.13% | 1.12% | 0.94% | 1.02% | 1.03% | 1.05% |
| 2004 | 1.31% | 1.24% | 1.28% | 1.31% | 1.35% | 1.34% | 1.31% | 1.23% | 1.23% | 1.25% | 1.09% | 1.23% |
| 2003 | 1.00% | 1.14% | 1.18% | 1.15% | 1.18% | 1.19% | 1.21% | 1.29% | 1.45% | 1.46% | 1.30% | 1.32% |

Horizon's Historical Monthly Returns

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Overall | Annual |
|------|--------|--------|--------|--------|--------|-------|--------|--------|--------|-------|-------|-------|---------|---------|
| 1999 | | | | | | | 0.16% | 0.50% | 0.48% | 0.63% | 0.44% | 1.12% | 3.37% | 6.86%* |
| 2000 | 0.50% | 0.72% | 1.26% | 0.62% | 0.52% | 0.72% | -0.03% | -0.16% | 0.04% | 0.82% | 0.54% | 0.54% | 6.27% | 6.27% |
| 2001 | 0.61% | 1.12% | 1.22% | -0.12% | -0.78% | 0.20% | 0.03% | 0.78% | -0.84% | 1.14% | 1.15% | 1.86% | 6.52% | 6.52% |
| 2002 | -0.41% | -1.29% | -0.26% | 0.72% | 0.61% | 0.53% | 0.46% | -0.03% | 0.4% | 0.46% | 0.05% | 0.42% | 1.64% | 1.64% |
| 2003 | 0.98% | 0.48% | 0.20% | 0.18% | 0.27% | 0.20% | 0.32% | 0.56% | 0.64% | 1.19% | 0.06% | 1.05% | 6.28% | 6.28% |
| 2004 | 1.60% | 0.30% | 0.61% | -0.78% | 0.42% | 0.25% | 0.60% | 0.59% | 1.10% | 0.08% | 0.40% | 1.91% | 7.29% | 7.29% |
| 2005 | 0.62% | 1.14% | 0.80% | 0.25% | 1.10% | 0.31% | 0.55% | 0.18% | -4.26% | 3.93% | 1.03% | 1.67% | -0.74% | -0.74% |
| 2006 | 2.82% | 1.31% | 1.43% | 2.38% | -0.14% | 0.13% | -0.47% | 0.18% | 1.41% | 1.42% | 0.71% | 0.94% | 12.75% | 12.75% |
| 2007 | 0.99% | 1.06% | 0.67% | 0.82% | 0.30% | 0.76% | | | | | | | 4.68% | 9.58%** |

* Return shown is annualised equivalent return based upon performance from inception to 31 Dec of year of inception

** Return shown is annualised equivalent return based upon performance from 1 Jan of current year to report date

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