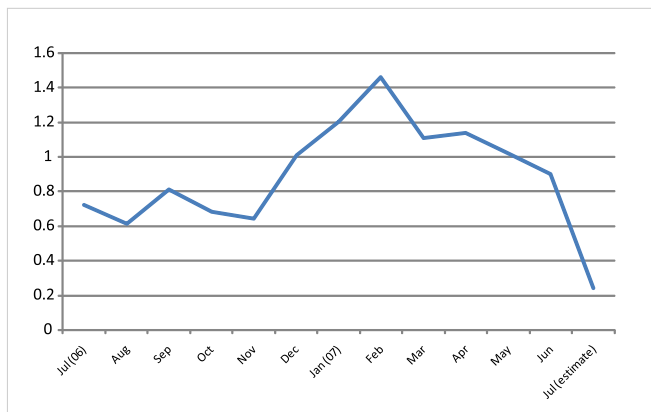


ASSET BASED LENDING



Mont Blanc – Monthly Performance in USD (please also refer to the appendix)
Source: Peak Partners

MONT BLANC SELECT

Focus: Offers access to a robust, diversified portfolio of non-correlated investments - primarily in the asset based lending (ABL) and highly collateralised asset space

Strengths:

- Portfolio management experience
- Sector relevant expertise
- Defensive portfolio
- Ability to negotiate capacity

Weakness:

- Better suited to those with a medium term outlook
- Liquidation value of collateral < Loan

Opportunities:

- Offers “non-correlating” high risk adjusted returns
- Falls outside the purview of traditional banks, hence there will always be a need for asset based lending
- Exploit inefficiency in capital-and credit market

Threats:

- Cost of credit influences the leverage applied
- Borrowers can access fund at more competitive conditions
- Under 1929 depression type conditions – performance would be challenged

Risk Management

- Main risk at portfolio level: **valuation, asset repossession capabilities**
- LTV ratio: **60% collateralised**
- Diversification:
 - Geographic: **US 74%; Europe 10%, Others 16%**
 - Provider: **Currently 31 managers**
 - Duration: **Avg. 14 months**
- Liquidity of underlying
 - Ability to “correctly” value and gauge liquidity of the underlying asset: ☐☐☐☐☐
- Valuations
 - Probability of the underlying positions encountering default risk:
 - Under normal conditions: **probability is lower**
 - Under stressed conditions: **higher than usual**
 - Ability to recover full value of collateral in case of a default
 - Under normal conditions: **very high**
 - Under stressed conditions: **fairly high**

☐ Low ☐ Low / Moderate ☐ Moderate ☐ Moderate to High ☐ High

- Ability to detect underlying manager's style drift: ☐☐☐☐☐
- Legal skills
 - Competency in reviewing the contingency clause of loans: ☐☐☐☐☐
- Shrinking risk premia: in the context of targeted AuM: ☐☐☐☐☐
- Risk of eroding returns: in the context of targeted AuM: ☐☐☐☐☐
- Leverage used: avg. annual (as of 31.07.07) **50%**
- Currency risk: **hedged** ☐☐☐☐☐
- Key Man Risk: ☐☐☐☐☐
- Key investor risk: ☐☐☐☐☐

Performance Parameters

☐ Low ☐ Low / Moderate ☐ Moderate ☐ Moderate to High ☐ High

- No. of positions in the portfolio: **31 (is being scaled up to 40)**
- Concentration risk: **diffused via diversification** ☐☐☐☐☐
- Diversification achieved in terms of collateral securing the loan: ☐☐☐☐☐
- Efficiency in putting investor capital to work: **negotiated capacity:** ☐☐☐☐☐
- Ability to sustain performance in:
 - A rising interest rate environment: ☐☐☐☐☐
 - In a falling interest rate environment: ☐☐☐☐☐
 - Probability of performing during a period of increasing defaults: ☐☐☐☐☐
 - Since inception consistency in delivering targeted net annual returns: ☐☐☐☐☐
- Annual expense ratio: **Total Expense Ratio of 3.38%**

Outlook

- Barriers to entry: **High, expertise needed, securing capacity**
- Threat posed by competition: **Exists, but has no bearing on fund's ability to perform**
- Scope for non-correlating, ABL, highly collateralised investments: **upside potential**
- Scope for a fund such as Mount Blanc Select: **upside potential**
- Correlations to:
 - MSCI World Index (as of 31.07.07): **0.29**
 - JP Morgan Govt Bond Index: (as of 31.07.07): **-0.13**
- Ability to deliver targeted returns over:
 - Next 12 months: **Realistic**
 - Next 3-5 years: **Sustainable**

Investment

- Current AuM: **USD360mn**
- Targeted AuM: **USD800mn**
- Base currency: **USD other currencies available in: CHF, EUR**
- Targeted at: **Sophisticated investors**
- Complexity for an investor: **Moderate**
- Transparency provided: **High**
- Recommended holding period to optimise returns: **min 3 years**
- EBK Approval in process - expected in Sept.'07

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ASSET BASED LENDING

EXPERTISE ON ASSET BASED LENDING - II

How immune are asset based lending investments under present market conditions?

That depends on whether the investments are traded on a secondary market.

Liquidity is the issue.

Direct lending in the private sector with no secondary market will not be "affected" by the current market conditions. However, it doesn't mean that these investments are of any better quality. They are less liquid by definition – i.e. there is no "market" for them. Loan duration and collateralisation determine liquidity. Investments made in asset backed securities, packaged or pooled loans and/or corporate credit where there is a tradable market will always be subject to the supply and demand of that market. But again, it doesn't mean that the underlying loans are of better or lesser quality.

Which asset based loans are at a higher risk of defaulting or under performing under these market conditions? Why?

From a hedge fund point of view, investments made with funds that have exposures which are marked-to-market will be hurt. At present the market is pricing default rates very high. This doesn't mean that they actually will be so. US sub-prime mortgages issued in the last 18-24 months that are traded via RMBS are being priced the most aggressively.

Would you say collateral "valuation", in the asset based lending space, needs to be reviewed ... in what way and why?

Not really. The process is relatively simple and it is highly, if not totally, dependent on duration. With loans of very short term duration, say 3 to 6 months, no collateral valuation reviews should be necessary. Loans originated 2 years ago or more are different. Therefore, collateral valuation or "re-valuation" is dependent on duration.

Under normal market conditions asset based lending is meant to be a non-correlating strategy... has it/ could it begin to show signs of correlation to other assets/strategies... as, under abnormal market conditions – a portfolio's positions are being increasingly unwound to secure liquidity?

Again, it is an issue of the capital markets. If the strategy is removed from the capital markets then it can't be correlated to the capital markets. For example, a portfolio of 90 day trade receivables has nothing to do with any capital or derivative market. Strategies such as media library finance, inventory finance, factoring, etc. are the same. Strategies that have market exposure will be subject to the supply and demand of the relevant market. Even during the recent events in the market historical correlations to the performance of other strategies are extremely low.

If at all, when and what financial conditions could potentially cause asset based lending investment performance to "back track"?

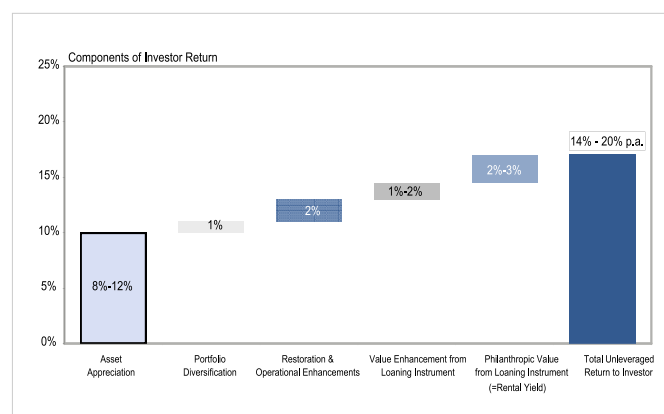
Any situation that would reduce the demand for short-term funding will cause a slowdown in deal flow. This is a micro-economic issue and not a hedge fund strategy or performance related issue. A hedge fund would have to return money to investors in order to avoid a cash drag. On the macro side an extreme recession, or depression, would hurt asset-based lending.



Santo Volpe

Co-founded Eden Rock Capital Management, a hedge fund business specialising in asset based lending. He is a member of the investment committee of Heather Capital Limited.

VIOLIN-LED INVESTING



Return Components

Source: Florian Leonhard Fine Violins

FINE VIOLINS - I L.P.

Focus: • Ability to invest in a portfolio of stringed instruments - individually valued at between USD 0.5mn and USD 5mn

- Specialise in high-end violins (cellos to a lesser extent) - mostly Stradivarius and Guarneris, 19th century or prior**
- Blends a philanthropic aim (loaning music instruments to up & coming musicians) with delivering performance

Strengths: • A fund partner, Florian Leonhard Fine Violins Ltd*, is one of the world's top five violin dealerships, certification, valuation and restoration houses

- Sector expertise

Weaknesses: • Suited to those with a medium term outlook

Opportunities: • Supply constrained as contemporary violin makers cannot rival the craftsmanship of 17th -18th Century luthiers

- Strong demand as these instruments are irreplaceable for classical performances
- Locked-in appreciation afforded by the scarcity value of the stringed instrument

Threats: • Restricted pool of stringed instruments**

Risk Management

Low Low / Moderate Moderate Moderate to High High

- Ability to source stringed instruments: ☐ ☐ ☐ ☐ ☐
- Ability to secure deal flow: ☐ ☐ ☐ ☐ ☐
- Authentication expertise: ☐ ☐ ☐ ☐ ☐
- Valuation: **Conservative**
 - Appreciation: **Value add potential from firm's (*) ability to select; offer: restoration and maintenance**
 - Assessment confirmed by **independent third party** (e.g. Sotheby's and/or Bonhams)
- Asserting history and provenance:
 - Firm's (*) assessments are systematically requested by major insurance companies and private collectors

- Ability to assess sound quality: ☐ ☐ ☐ ☐ ☐
- Leverage: **none at portfolio level**
- Liquidity: **via private collector, charities, orchestra (auction as alternative)**
- Currency risk: ☐ ☐ ☐ ☐ ☐
- Instrument related risk: (theft, damage, loss etc.): **fully insured**
- Key investor risk: ☐ ☐ ☐ ☐ ☐
- Key man risk: ☐ ☐ ☐ ☐ ☐

Performance Parameters

Low Low / Moderate Moderate Moderate to High High

- Targets annual returns of: **15%**
- Volatility of returns: ☐
- Portfolio diversification: ☐ ☐ ☐
- Ability to deliver returns under different market conditions: ☐ ☐ ☐

Outlook

- Barriers to entry: **Know-how, experience and network**
- Threat posed by competition: **Low**
- Consistency of returns: **High**
 - Annual returns in the high-end stringed instrument segment have not fallen below 8% since 1970
- Ability to deliver targeted returns over the next 3-5 years: **Realistic**

Investment

- Current AuM: **USD12mn**
- Targeted AuM: **USD50mn**
- Recommended investment period to optimise returns: **3-6 years**
- Targeted at: **Sophisticated investors**
- Investment restrictions: **Apply**
- Base currency: **USD**
- Complexity for an investor: **Low**
- Transparency provided: **High**

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TRANSPORTATION

RAIL CAR LED INVESTING

Strengths:

- To accrue operating and cost efficiencies, rail car operators increasingly prefer to lease rail cars as opposed to making a direct purchase
- Leasing affords flexibility, ability to focus on core competencies as opposed to pursuing an expensive-labour intensive-integrated approach of managing and servicing a railcar fleet
- Contractors can offer the most cost-effective and flexible options in the business
- Ability to monetise rail assets, whilst keeping cars in the fleet (eg. sale-leaseback arrangement)

Weaknesses:

- The railroad industry is not immune to economic cyclicalities

Opportunities:

- Freight transportation by rail is cleaner, requires less energy, is less susceptible to traffic congestions
- The need to transport both traditional and modern fuel resources -coal, renewable and bio fuels; timber; metal and mining resources (partially ties-in with the commodity boom cycle currently underway), commercial, manufacturing and other goods etc, is on the up tick
- Based on a recently revised forecast by the US based Economic Planning Associates:

"demand for rail cars will remain on solid footing for a number of years to come"

The optimism is anchored in the need to replace/modernise fleet, stay abreast with technological advances and comply with legislation (greenhouse)

Threats:

- Global GDP growth slows considerably/slides unexpectedly - depression

Risk Management:

- Need to deal with derailment, accidents, natural disaster recovery, track remediation, switching installations and turnout issues
- Ability to optimise fleet revenues

Skills:

- Ability to offer competitive, high quality rail car leasing and management services
- structured financing expertise

How it works:

For example Trinity Rail's leasing team has financing and leasing experts that help customise financial structures (fleet purchase and leasebacks, joint ventures or partnerships)

Examples of some leases they offer (short-term or long term)

• Full service lease:

- is a comprehensive lease structure that includes full maintenance, makes property tax payments and handles railroad damage claims.
- it also provides rental abatement while the car is non functional; needs operating repairs.

• Net Operating Leases

- Trinity Rail receives a monthly lease payment from the client, and the latter is responsible for maintenance and administering the cars
- receives no rental abatement for cars that are out of service

• Per Diem Leases

- one of the most flexible lease structures offered, provides equipment to customers free of rental fees
- revenue is derived from the railroads' usage based on time/mileage on their lines

Some leading players:

- Trinity Rail, US – (Trinity's Railcar Leasing and Management Services Group)
- BNSF Railway, US
- Babcock & Brown Rail Management (BBRM), Australia – railcars
 - Joint railcar leasing venture established with Greenbrier
 - Eurorail - locomotives and railcars - joint venture with HBOS

Investments:

structured products, transportation and infrastructure funds that allocate to the railroad industry, pvt equity, equity and debt

APPENDIX

MONT BLANC – MONTHLY PERFORMANCE IN USD AS OF 31ST. JULY 2007 (ESTIMATED):

	2003	2004	2005	2006	2007
January		0.83%	0.83%	0.71%	1.20%
February		1.32%	0.82%	0.64%	1.46%
March		0.97%	0.89%	0.80%	1.11%
April		1.24%	0.67%	0.74%	1.14%
May	1.68%	1.47%	0.85%	0.69%	1.02%
June	2.15%	0.87%	0.75%	0.68%	0.90%
July	1.54%	0.28%	0.84%	0.72%	0.24%
August	1.16%	0.37%	0.55%	0.61%	
September	0.94%	0.62%	0.72%	0.81%	
October	1.22%	0.79%	0.59%	0.68%	
November	0.99%	1.46%	0.64%	0.64%	
December	0.87%	0.74%	0.68%	1.01%	
YTD	11.05%	11.52%	9.19%	9.08%	7.28%

*Figures from 05/03 to 06/06 reflect our effective allocation to these strategies within our audited funds, according to their weights and an average applied leverage of 25%.

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