Distressed debt investing

Have we hit rock bottom?

May 2011

Edison investment research

Published by Edison Investment Research

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This report covers the seven investment companies quoted in the UK and Ireland and reviews current trends in the distressed debt market. Currently, high unemployment rates, excess production capacities and deteriorating public finances are contributing to the glut of distressed debt in the markets. We find ourselves between the twin peaks of a 'default super-cycle'. Default rates have been high since 2009 and are expected to remain high as a significant amount of maturing debt is predicted to hit the market in 2012/13. Banks are increasing capital requirements, forcing sellers to market earlier than expected. In the absence of another major credit event, we expect a recovery in 2014/15 with discounts to narrow at that stage. It is our view that we have not yet hit rock bottom.

'Sweet spot of super-cycle moves around'

High default rates are predicted again as we approach 2012/13, with Moody's forecasting defaults running as high as 16% by late 2013 in the rated corporate sector, similar to levels during the 2002 financial crisis. We believe the rate of defaults will peak again at this point

Lenders unlikely to budge

Due to regulatory changes, lenders are unlikely to be flexible with borrowers by lengthening maturity terms or changing covenants in agreements. This will exacerbate already high levels of defaulted debt, especially in 2012/13, when a significant number of leveraged loans are expected to mature.

Lucrative returns in a low interest environment

Historically, investors have realised up to 30% gross rates of return in the distressed debt sector for the 24-month period following a peak in default rates. Distressed funds have typically performed well after investor realisation of a default peak, so we expect a considerable improvement in fund returns after 2014 and through to 2015.

Deep discounts to be found

Trading of distressed debt is currently taking place at deeply discounted prices relative to fair value, offering substantial value for investors who have a low cost of capital and an ability to wait out the market. Discounts may increase further in the near term until the market bottoms out.

May 2011

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Companies in this report

Acencia Debt Strategies*
Better Capital
FRM Credit Alpha
NB Distressed Debt Strategies
Saltus European Debt Strategies*
Signet Global Fixed Income Strategies
Third Point Offshore Investors Limited

**denotes research client of Edison Investment Research Limited*

This report has been commissioned by Saltus European Debt Strategies Limited

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Investment summary: Market is still ripe

‘Default super-cycle’

Previous default cycles have tended to consist of a single spike, and thus were short-lived. However, we currently find ourselves in a ‘default super-cycle’, given that so many highly geared businesses have been under continued pressure since 2009, due to vastly reduced expectations for consumer demand and global growth. In the 2002 financial crisis, we saw $109bn (US alone) of defaulted debt at the peak of the cycle. Our opinion is that this twin peak cycle is substantially larger. In the 2008 crisis the first peak nearly $400bn of debt defaulted in the US. It is worth noting that distressed funds have performed best after default peaks. Although levels of new defaults are currently very low given the maturity schedules for 2011 and zero interest rates, this is expected to change as interest rates increase and loans become due for repayment through 2012-15.

In the mid-market, however, unrated distressed debt is currently booming with high levels of activity in high yield debt and restructuring. Access to the capital markets remains divided with larger cap public companies having greater access than smaller private companies. In 2010, the public high-yield bond market saw record issuance of $277bn compared with $181bn in 2009.

Both the number of companies defaulting on their bond obligations and the par value of bonds affected by the defaults fell dramatically in 2010. The defaulted issuer count fell 77% to 35 from 151 in 2009 and the par value of bonds affected by the defaults dropped by 90% to $11.9bn from $118.6bn in 2009. The 2010 issuance boom, with roughly two thirds dedicated to refinancing, allowed companies to lock in attractive borrowing costs and push out bond and loan maturities – 88% of newly originated bonds in 2010 mature in 2016 or later. Market participants believe that the relative lack of capital for private companies will continue to result in opportunities for investing in distressed loans. Many expect an additional $1tn in high-yield debt and leveraged loans to come to market in the US alone through the next four years, reflecting the magnitude of the debt crisis.

While Moody’s predicts high default rates for the rated corporate sector, we are currently experiencing a low number of defaults in the corporate sector due mainly to maturity schedules and zero financing costs. Maturities rise in 2011 to $120bn from $50bn in 2010, but they likely will remain manageable maturity schedules.

High investment returns

For hedge funds and private equity firms, investing in distressed debt is an attractive opportunity to achieve high returns in a relatively short period of time. There is the potential for a 20-30% IRR in the 12-24-month period following a default peak. For example, distressed funds returned -27.1% and +29.8 in 2008 and 2009 respectively. Similarly, they returned 4% in 2002 as contrasted to 23% in 2003, yet again recovering the year after defaults peaked in 2009 and 2002. Furthermore, if a low interest rate environment persists, there will be increased demand for distressed assets (for their superior yield) and hence a further investment in high-yield debt or ‘junk bonds’, solely from a relative value perspective.

Fundamental value

With high default rates persisting until at least 2013, there will be several opportunities for distressed debt fund managers to purchase distressed debt at further discounts to NAV. As buyers of last resort, distressed managers are able to buy company assets at deeply discounted prices relative to fair value, typically from forced sellers. There is also an opportunity for them to realise additional value through asset restructuring. As companies continue to struggle to service their debt, more downgrades – and subsequently defaults – are likely. These provide opportunities to buy the underlying assets at deep discounts to fair value.

However, the discount to NAVs at which FOFs are trading reflects the poor investor perception, rather the discount to underlying assets values that SFs achieve. As we approach the market or investor anticipated default peak (in this case in 2013/14), funds should trade at narrower discounts in relation to NAVs as investors become less wary of default risk.

Once we see signs that default rates have peaked and supply reduced, such as a slowdown in the rate of new defaults coming onto the market, we should see significant improvement in the performance of distressed debt funds.

Regulatory pressure

Under the Basel III accords introduced in September 2010 which increased banks' capital requirements, lenders are more wary than before and are unlikely to be flexible with loan repayment terms (eg by granting waivers or extending maturities) to companies on the brink of default status. Again, this poses an opportunity for distressed debt investors as companies may be forced to sell at deep discounts.

The distressed debt cycle

Distressed debt can be loosely defined as the debt of companies that have either filed for bankruptcy protection or have a significant chance of filing for bankruptcy protection in the near future. Investing in distressed debt involves the purchase of those defaulted notes (usually secured debt), or those soon-to-be defaulted notes, as companies try to avoid bankruptcy protection by negotiating out-of-court settlements with their existing creditors.

'Distressed debt' is defined as below investment grade with a rating of C or lower from Moody's/S&P. Investors can purchase 'pools' of defaulted assets through funds or investment trusts, or can simply focus on individual opportunities. Funds tend to have exposure to several distinct sectors, such as industrial, retail or real estate, and generally require a 3-5 year debt workout period after any bankruptcy filings. If an investor chooses to invest directly in individual assets, this may afford a greater level of asset control and will typically require a much shorter workout period, generally up to 18 months. As the buyer of last resort, the distressed manager is able to purchase the distressed debt at deeply discounted prices relative to fair value, typically from forced sellers, and has the opportunity to realise additional value through the effectiveness of any restructuring expertise.

In exchange for investing in distressed debt, hedge funds and private equity funds seek higher rates of absolute return compared with more conservative investments. On average, private equity funds seek a 15-20% IRR and hold the investment for 5-7 years, whereas hedge funds typically seek a 10-15% IRR and hold the investment for a shorter period of time. Considering the current low interest rate environment, this sector provides an attractive alternative for many investors.

The debt default process is typically characterised as follows: when a bond payment default event initially occurs, senior lenders, such as banks or distressed funds, trigger guarantee clauses in their agreements that demand either immediate debt repayment or management control of the company. Essentially, they are telling the borrower ‘repay me or give me the keys’. All the equity and any subordinated debt at this point risks becoming worthless, as the business may become owned by the senior debenture holders. In this scenario, senior lenders officially exchange their debt for equity referred to as a debt-for-equity swap effectively forgiving their debt. In this manner, the company has the opportunity to continue as a viable entity, free of any debt constraints. Alternatively, if a workout opportunity is still viable, the existing debt can either be refinanced or sold, or new equity floated, giving the distressed fund an exit opportunity and the potential to realise profits.

Lifecycle of distressed debt

While the opportune time for investing in a distressed asset is based on many factors – including trends in the overall economy, legislative changes affecting certain industries and the state of the credit markets – the single most important investment parameter is the deterioration in the financial condition of a company. Some of the key balance sheet indicators include high debt-to-equity ratios as well as low cash or interest coverage ratios. Any of those indicators hovering near alert levels or trending in the wrong direction are the initial signs of a company in distress. Without an infusion of new capital, a difficult path lies ahead, hence the opportunity for distressed debt investors.

Typically, a company that has distressed financial indicators (ie an interest coverage ratio near, or trending towards, 1.0) will be unable to access the traditional commercial bank loan or debt markets without fundamental changes to its financial profile. If an immediate reduction in fixed costs or salaries is untenable and would drastically affect revenues, restructuring may be the only solution. The options for restructuring debt may include extending maturity dates or deferring interest payments, releasing or substituting assets as loan collateral, sale of assets or divisions, or selling defaulted loans or properties to third parties. It is difficult to ascertain the exact stage when a company begins to be recognised as ‘distressed’, or when a distressed debt investor has the initial opportunity to invest. Investment opportunities may arise at the first signs of financial distress or, alternatively, after a default event or bankruptcy has actually occurred. Some companies recognise sooner rather than later the difficulties dealing with loan/debt workouts. Enter the potential for fresh capital from a distressed fund, along with management expertise on asset restructuring. Also, while banks and traditional debt markets may not be able to take a risk on a potential company turnaround (due to regulatory or capital constraints), distressed investors may have more ‘buy-in’ potential and the ability to wait for a company or market turnaround.

Ultimately, distressed debt investing is a cheap way to step onto the ownership ladder of a company, buying the underlying assets at significant discounts relative to their actual value. Therefore, the terminology, ‘distressed debt’ could be a misnomer in that one can enter the distressed debt investment lifecycle through the purchase of equity. In effect, this type of investment is actually an investment into distressed ‘companies’ as the investor is still crystallising value through the bankruptcy process. Returns are highly dependent on when you enter the lifecycle.

Distressed debt strategies

Distressed assets could be particularly difficult to access for an investor in Europe, as the market is less developed than in the US and is therefore US-centric in nature.

There are different ways to invest in distressed assets, either through:

- Funds of funds (FOFs)
- Direct single manager funds (SFs) – which are not to be confused with single strategy funds

Both offer higher returns that traditional corporate debt funds however, FOFs ultimately provide better liquidity by diversifying by either sector, manager and/or total number of companies invested. They therefore tend to attract new funding from institutional investors and smaller private investors that would typically be concerned about too much exposure to any given sector. These investors will continue to use FOFs in this asset class, because going it alone takes a significant commitment of management time and resources, which are often beyond their means. FOFs typically charge slightly higher fees due to the additional management and reporting costs incurred.

Some of the larger investors, such as pension funds and insurers, are likely to have their own in-house expertise, including systems, operations, protocols and processes. They may also have knowledge networks that enable them to evaluate SFs or single strategy funds, allowing them to take the extra 'concentration' risk and therefore enable them to reap the additional rewards, or alternatively, carry the potential losses. However, by going it alone, they save the additional layer of fees that can drag down the net performance of FOFs. Typically, these SF investors are already well diversified by sector and geography because of their large investment portfolios and spread of assets. Moreover, they tend to prefer to have direct ownership, enabling control of their investments. SFs may, however, create responsibilities and liabilities, which institutional investors need to accept and be comfortable with.

Overall, factors that contribute to the decision as to whether or not to invest in an FOF or SF will depend on both how much money is invested and on the resources (expertise, knowledge base, financial resources, human capital, IT systems and so forth) at their disposal. In response to increasing opportunities for investing directly, FOFs will ultimately need to focus on improving their management, efficiency and being able to introduce innovation as the market matures.

Our current position in the cycle: 'In between the twin peaks'

High unemployment rates, excess production capacities and deteriorating public finances are contributing to the glut of distressed debt in the markets. Previous credit conditions, such as access to cheap capital and loose credit terms, exacerbated the build-up of debt to 2009/2010 levels, much of which is still being restructured or liquidated.

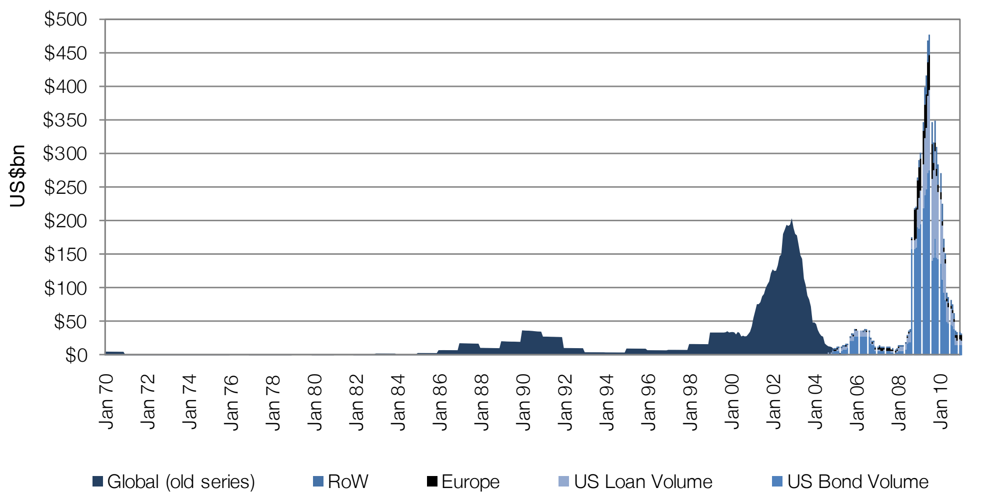
As described earlier, we believe we are currently 'in between the twin peaks' of a 'default super-cycle' with the peaks falling in 2009 and the second anticipated in 2013. Although there are currently very little defaults in the rated sector, high yield debt issuances and restructurings (i.e. structured credit) in the mid-market are booming as this segment of the market has more limited access to capital.

Previous default cycles have tended to be single spikes and thus short-lived however, this cycle has the opportunity to persist longer than usual as many businesses went into the downturn in 2009 with unsustainably high gearing levels and have been under unrelenting cost pressure since. Expectations for consumer demand and global growth continue to be modest.

As companies struggle to service their debts, many will continue to be downgraded or default. As a result, we can expect an additional $1tn in high-yield debt and leveraged loans to come to market in the US alone in the next four years. These figures are extremely high considering that $109.8bn in bonds defaulted in the 2002 financial crisis.

Default rates peaked in 2009 ($400bn in the US alone) and are expected to peak again in 2012/13 as a significant amount of debt is expected to come into the market in this period, based on maturity profiles of issued debt. It is worth noting that distressed funds perform best after default peaks.

Exhibit 1: Default debt volumes (inflation adjusted)

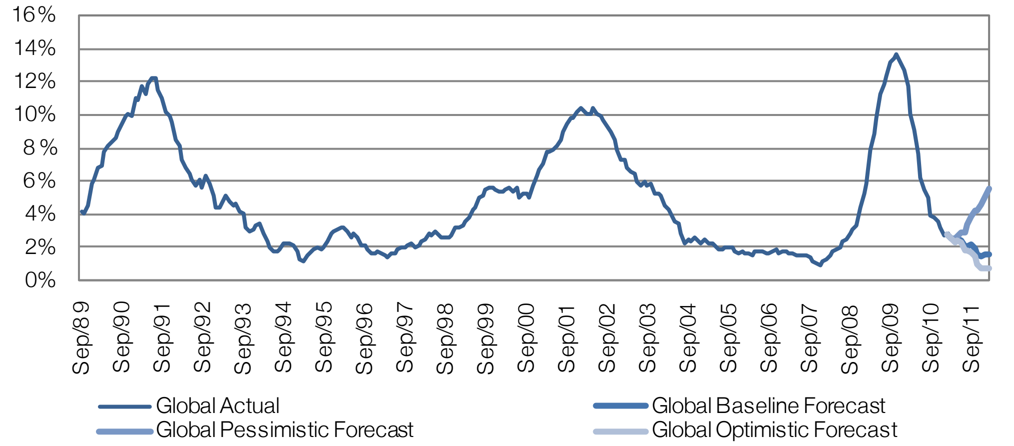


Source: Moody's

Lenders are less likely to be flexible with borrowers in 2012/13, when a significant number of leveraged loans are expected to mature. As a result of the introduction of Basel II in 2004, banks were required to set aside more capital to meet unexpected losses. This resulted in the steady reduction of the percentage of non-performing assets from banks' credit portfolios – from 7.86% in 2003 to 5.48% in 2005. We anticipate a similar trend with the introduction of Basel III in September 2010 also increasing capital requirements – lenders again are wary and are unlikely to be flexible with loan repayment terms (eg by granting waivers or extending maturities) to companies considering default status. Again, this poses an opportunity for distressed debt investors (both at the SF or FOF level) as companies may be forced to sell at deep discounts (ie the underlying assets held by SFs are discounted).

Because of its countercyclical nature, the most fruitful periods for distressed debt opportunities normally follow periods that have experienced a large influx of low-quality debt issuance. This is exactly what we have experienced in recent years, driven by low interest rates and exuberant bank lending. From 2009 we have seen this unwind, with default rates – and hence supply of distressed debt – increasing specifically in the mid-cap sector. As default rates arrive closer to the peak of 16% (forecast by Moody's) in 2013, we can expect higher investor demand to re-emerge significantly.

Exhibit 2: Global default rates



Source: Moody's

In the absence of another major credit event, we expect a recovery in 2014/15 and discounts on underlying distressed assets (through the SFs) to narrow at that stage. It is our view that we haven't yet hit rock bottom, although the global economy has stabilised from the 2008 credit crisis. Moody's forecasts defaults returning to as high as 16% by late 2013, similar to those levels of the 2002 financial crisis when defaults peaked. Typically, investors can expect rates of return of up to 30% gross in the distressed debt sector during the 24-month period following the peak in default rates (this has been the historic experience).

Distressed funds have typically performed well after investor realisation of a default peak. We should therefore also expect a considerable improvement in returns after 2014 and through 2015. In summary, discounts to NAV may increase further in the near term until the market bottoms out. However, trading of distressed debt is currently taking place at deeply discounted prices relative to fair value, offering substantial value for investors who have a low cost of capital and those who also have the ability to wait out the market.

Current performance

Current performance is highly dependent on whether or not the fund is an SF or FOF. SFs generally trade at a premium while FOFs trade at a discount, mainly because of the higher fee structure associated with them, ie for an investor there are two levels of fees. The FOF manager pays a fee on the funds it buys and the investor also pays the FOF manager a fee. Typically, these costs will drag down the results of FOFs. However, the benefit for paying higher fees is the lower risk associated with FOFs said to arise from a more diversified portfolio (diversification of manager and asset). Many claim that there has not been a real diversification of risk by investing in FOFs due to the high correlation between different sectors in recent years (ie real estate, retail, industrial and such); therefore, this could make it more difficult for FOFs to attract funding unless they can demonstrate real diversification of risk in their investment strategies.

The other key factor determining performance is the time the fund was launched, ie just before a crash: "At the bottom of the cycle you have pretty asymmetric risk to the upside. If you started a hedge fund at the top of the cycle, like the beginning of 2007, you would have thought that things are great and it is really easy to raise money but your business would have gone off a cliff." (Robert Sorrell of Sorrell Capital, *Fortune*, 6 January 2011). The timing of a fund's launch should therefore be considered when evaluating its performance.

Market inefficiencies

There are inherent market inefficiencies within the distressed debt markets that have traditionally kept barriers to entry high. Dealing within the distressed debt markets is traditionally reserved for qualified investors and sector specialists. Ironically, these very same inefficiencies give rise to opportunities for savvy investors:

- Often low levels of liquidity within the distressed debt markets.
- Mistakes can be extremely costly and not easily undone.
- Debt rated grade C and below can provide considerable upside but also legitimate default risk.
- Principals must understand the legal and bankruptcy processes inherent in a default scenario and the costs associated with such an event.
- The length of loan trading and the settlement can also be factors to disrupt trading activity.
- There is typically a lack of current research coverage as well.

Nevertheless, private investors and smaller institutions have seen lowered barriers to entry due to the creation of FOFs. By having lower minimum investment requirements, FOFs are generally tradable liquid assets and are therefore more easily accessible. Professional management and risk diversification give greater comfort to new investors in this sector.

Current opportunities

For hedge funds and private equity firms, investing in distressed debt is an attractive opportunity to achieve high returns in a relatively short period of time. Historically, we have seen a 20-30% IRR in the 12-24 month period following the default peak. Distressed funds returned -27.1% in 2008 and 29.8% 2009, following the default peak in 2008. Similarly, they returned 4% in 2002 followed by 23% in 2003, yet again recovering the year after defaults peaked in 2002.

Furthermore, if a low interest rate environment persists, investors, in their search for income-generating (or yielding) assets, will continue to target distressed debt, as investment grade debt yields less.

With high default rates predicted to last until at least 2013, there will be several opportunities to purchase distressed debt at further discounts to NAV. We are likely to see default rates increase further before we see some improvement in performance of distressed debt funds.

As buyers of last resort, distressed managers are able to buy company assets at deeply discounted prices relative to fair value, typically from forced sellers. There is also the opportunity to realise additional value through asset restructuring. Thus in theory, there is substantial inherent value in the funds.

Given that we do not expect distressed debt defaults to peak until at least 2013/14, investing in distressed funds is a longer-term investment strategy. We do not expect investors to exit the market and realise profits until 2016. So investors have two possible strategies:

1) they can wait until they can achieve greater discounts to NAV as more forced sellers enter the marketplace in the coming year; or

2) they can choose to enter the market now and remain invested for c 5 years.

Given that we are in such a low interest rate environment, returns could be significant enough to warrant a 5-7-year waiting period. Those investors who dare not risk timing the default peak may opt to invest now, with the hope of reaping substantial rewards when the sector starts recovering.

Perceived risks: Myth or reality?

Any rational investor is aware that with greater risk comes greater potential for losses. However, one of the unique risk mitigating factors is the ability to take an active role in determining the fate of a company. Managers of SFs have an ability to directly affect change, ie by sitting on the board, managing the company, re-evaluating the business strategy, selling off assets and such. The investor therefore takes an active role in determining the future performance of the below-investment-grade company. As a debt holder in an investment-grade company, one would never have the ability to affect change of this type. In fact, the ability to change the outcome of the company in distress is one of the significant drivers for investors in this sector.

While it would not be wholly accurate to determine that the distressed debt markets offer superior risk-reward scenarios, one can argue that investing in distressed debt has a more controllable outcome for investors than anticipated, an added value not typically evident due to the fact that distressed debt typically sells at a very low percentage of par values. An investor in FOFs would not have the same opportunities for control as detailed above, as this control is ceded only to fund managers. However, although the trade-off is the reduced risk, the reward will not be as high as SFs, which have historically obtained slightly higher rates of return.

Peer group comparison

In this section, we look at a selection of FOFs and credit hedge funds which are in excess of £50m and which are listed on the London Stock Exchange. In the group below, Dexion Trading and Dexion Absolute were top performers overall during the 3-5-year period. However, Acencia Debt Strategies (ACD) have made some major gains in the past year, with performance exceeding its peer group and the HFRI Index, while Absolute Trust lagged behind as one of the weakest performers. Despite its gains, ACD is still trading at the largest discount among its peers – despite its improvement in the past year, so it could offer value to new investors.

The remainder of the funds performed quite poorly over a 3-year time horizon in terms of both price and NAV. All are currently trading at discounts with the exception of NB Distressed Debt, which is trading at a premium of 6.4%.

Although there has been some improvement in the performance of FOFs in the past year, we believe that this is only a short-term improvement as we are still expecting defaults to peak in 2013/14, which will affect investors perception and confidence levels in 2011/12.

In the following section, we will discuss some of the key financial and non-financial indicators that should be analysed in order to understand why certain funds could be outperforming others.

Exhibit 3: Peer group performance and discount comparison, updated 25 March 2011

Company	Price performance (%)			NAV performance (%)			(Disc)/
	1year	3 year	5 year	1year	3 year	5 year	Prem (%)
HFRI FOF Index	0.2	16.0	18.9	0.2	16.0	18.9	N/A
Absolute Return Trust	(2.8)	(16.0)	3.4	1.6	4.0	27.1	(16.0)
Acencia Debt Strategies	5.0	(17.8)	N/A	11.2	(3.2)	8.0	(18.4)
Alternative Investment Strategies	1.4	(18.0)	(17.7)	3.4	(7.2)	1.4	(15.6)
Better Capital	9.5	N/A	N/A	N/A	N/A	N/A	N/A
Castle Asia	17.7	(13.3)	(2.9)	1.7	(8.7)	5.2	(4.5)
Dexion Absolute	1.9	(5.9)	2.8	3.4	6.5	21.0	(9.2)
Dexion Equity Alternative	0.7	(6.8)	(6.3)	2.5	2.9	13.5	(13.5)
Dexion Trading	1.3	(5.8)	16.4	3.8	6.1	29.5	(10.1)
FRM Credit Alpha	11.3	(30.7)	N/A	(5.2)	(21.5)	N/A	(11.1)
Goldman Sachs Dynamic Opportunities	2.4	(17.3)	N/A	3.4	(2.4)	N/A	(13.8)
NB Distressed Debt	N/A	N/A	N/A	N/A	N/A	N/A	6.4
Saltus European Debt Strategies	15.8	(34.3)	N/A	(4.3)	(29.6)	N/A	(16.8)
Signet Global Fixed Income	16.1	(14.1)	N/A	2.1	(8.5)	N/A	(14.8)
Thames River Multi Hedge	(1.5)	(24.8)	4.7	2.6	(5.9)	23.4	(16.4)

Sources: Bloomberg, Thomson Reuters Datastream, Edison Investment Research.

Exhibit 4: Peer group performance and discount comparison (updated 25 March 2011)

Company	Launch date	Gross gearing	Net gearing	Yield
Absolute Return Trust	Feb-05	100	100	0.0
Acencia Debt Strategies	Nov-05	100	100	9.3
Alternative Investment Strategies	Dec-96	100	101	0.0
Better Capital	Oct-09	100	100	0.0
Castle Asia	Oct-05	100	93	0.0
Dexion Absolute	Dec-02	100	100	0.0
Dexion Equity Alternative	Apr-04	100	100	0.0
Dexion Trading	Nov-04	100	93	0.0
FRM Credit Alpha	Apr-07	100	76	0.0
Goldman Sachs Dynamic Opportunities	Jul-06	100	100	0.0
NB Distressed Debt	Jun-10	100	32	0.0
Saltus European Debt Strategies	Jun-07	100	88	0.0
Signet Global Fixed Income	Nov-06	100	100	16.3
Thames River Multi Hedge	Feb-04	101	101	0.0

Sources: The AIC, Bloomberg, Thomson Reuters Datastream, Edison Investment Research.

Performance analysis

When analysing performance there are a number of factors to consider:

- Launch date of fund: This is crucial in assessing its performance in a time horizon. When it actually entered the distressed debt cycle, is significant. If it enters the cycle at a low point there is the ability to purchase debt assets at deep discounts, which should see very positive returns and performance. If a fund invests all its assets just before a crash its performance is unlikely to recover, even over a 3-5-year time horizon. We may need to give these funds a longer time horizon to prove their performance, given the length of this cycle (as we had stated earlier, this is not a traditional default cycle).
- Gearing: magnifies returns in rising markets but can have the reverse effect in falling markets. Furthermore, underlying companies in portfolios may also be leveraged. FOFs are generally not geared at that level as they already have exposure to gearing at the underlying asset level (look through gearing). If an FOF is geared, it is important to look at access to debt facilities and their covenants (its capital structure).
- Capital versus yield: Many of these funds report zero yields as they tend to focus on capital appreciation rather than providing income to investors through dividends. Distressed debt investing is essentially about identifying opportunities for purchasing assets at low valuations, with the aim of creating value though restructuring etc. So dividend payments or yields are not likely to be a major factor for distressed debt investors.
- Management experience/track record: How long the management has been involved in distressed securities investment and how successful it has been relative to its peers.
- Investment strategies: How do they differentiate the company from its competitors?
- Cash levels: The net cash held by the company that can facilitate new investment.
- Management fees: The level of management fees and performance fees, all of which impact upon the net return to an investor.
- Liquidity: Helps an investor know how quickly a FOF can sell its assets or exit from its investments (unwinding), in addition to its ability to buy and sell its shares in the marketplace. Clearly the more frequently traded, the more liquid they are all the better for investors.

Company reviews

Acencia Debt Strategies

12 Months Ending	Total Share Price Return* (%)	Total NAV Return* (%)	Total Return HFRIFOF* (%)
31/03/08	(8.0)	0.5	1.4
31/03/09	(55.4)	(28.8)	14.5
31/03/10	78.8	28.2	6.0
31/03/11	7.8	5.9	(0.6)

Note: *12-month rolling discrete performance

Investment summary: Distressed debt fund of funds at a considerable discount

2010 was a challenging year as macroeconomic concerns dominated the trading environment; however, Acencia Debt Strategies (ACD) outperformed the HFR Funds of Funds Index (HFRIFOF) in terms of NAV total return by 22.2% and 6.5% in the 12 months ending 31 March 2010 and 2011, respectively. In terms of NAV/share during the latter period, ACD has achieved a similar performance with a 7.8% increase from 95.4p to 102.8p and an increase in share price to 86.3p, representing a 7.8% improvement from the previous year.

Investment objective: Capital appreciation

ACD invests predominantly in a portfolio of debt-oriented hedge funds. As such, all ACD's direct holdings are funds. The strategies of the underlying funds are diverse, although the predominant strategy is distressed debt. ACD's primary investment objective is to provide annual returns in excess of three-month LIBOR plus 5% over a rolling three-year period and annual standard deviation of under 5%, while using minimal gearing at the fund level and on a look-through basis. The yield of 0% reflects the company's capital appreciation policy.

Manager's view: Distressed debt at low valuations

The manager considers that ACD is trading at a substantial discount and so offers good value to investors. The manager also believes we are in a "default super cycle" and debt markets will struggle to re-finance $400-500bn of high yield debt maturing in the next three years. This should create substantial opportunities for buyers of distressed debt. The manager thinks distressed funds are less affected by market events than other sectors and that pervasive negative sentiment can have advantages for this type of fund.

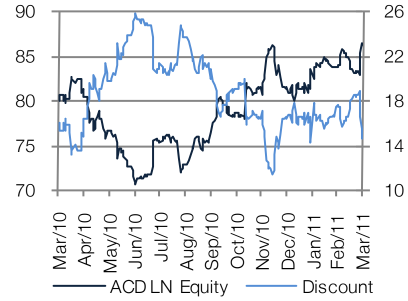
Valuation – Discount in line with three-year average

The discount, 16.1% (to last published NAV of 102.8p), is well below its all time peak of 49.9% in December 2008, but is nearer to its three-year average of 19.9%.

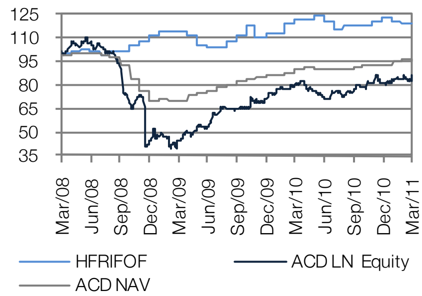
Current Price	89.3p
Market Cap	£127.3m
AUM	£144.3m
NAV	101.4p*
Discount to NAV*	12.0%
NAV	102.8 p**
Discount to NAV**	16.1%
Yield	0 %

Current price as at 3 May 2011.
** Datastream estimated NAV as at 3 May 2011.*
*** Last published NAV as at 31 March 2011.*

Share price/discount graph



3-year cumulative performance graph



Share details

Code	ACD
Listing	UK - FULL
AIC Sector	Hedge Funds
Shares in issue	142.6m

Price

52 week	High*	Low*
Price	86.38p	70.75p
NAV	102.32p	95.28p

** As at 31 March 2011.*

Analysts
Rana Halaby-Cooper +44 (0)20 3077 5700
Matthew Read +44 (0)20 3077 5758
investmenttrusts@edisoninvestmentresearch.co.uk

Exhibit 1: Investment company at a glance

Capital structure summary

ACD has a conventional structure with one class of security in issue, ordinary shares of nil par value. It does not have any long-term or fixed structural gearing although it does have a multipurpose, multi-currency bank borrowing facility with Bank Julius Baer & Co, under which borrowings may not exceed the lower of £25,000,000 or 10% of the market value of the company's assets deposited with the custodian. The company does not use leverage other than for short-term working capital needs. In addition, the portfolio has minimal gearing at the underlying fund level. All of the company's foreign exchange exposures are hedged.

Forthcoming

Year end	31 December
Preliminary	n/a
AGM	April 2012

Share buyback policy and history

Renewed annually, ACD has authority to purchase up to 14.99% of issued share capital and issue an unlimited number of shares of no par value.

Fund details

Launch date	November 2005
Domicile	Guernsey (LSE listed)
Manager	Saltus Partners
Address	18 Dering Street London W1S 1AQ
Phone	+44 (0)20 7290 9400
Website	www.acencia.co.uk

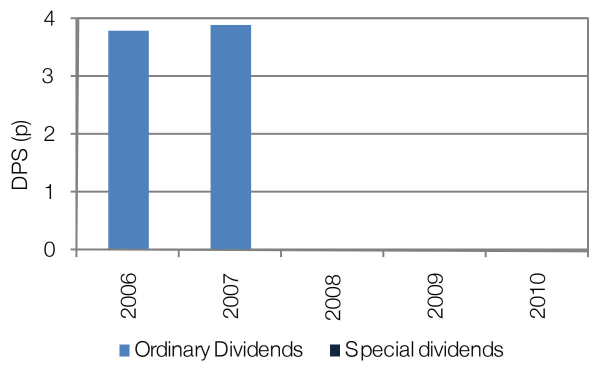
Dividend policy

ACD is now pursuing a pure capital appreciation objective and does not plan to pay dividends going forward.

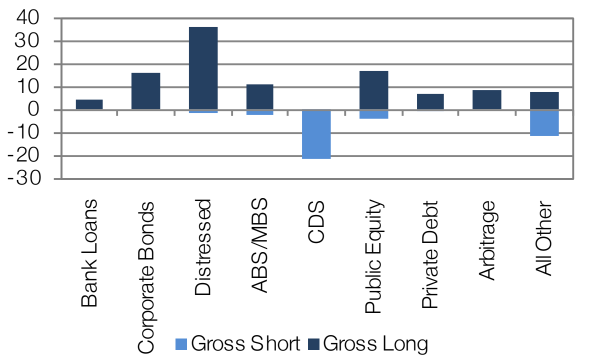
The board

J Le Pelley, R Battey (chairman), J Macintosh, R Dorey, W Scott (non-independent directors)

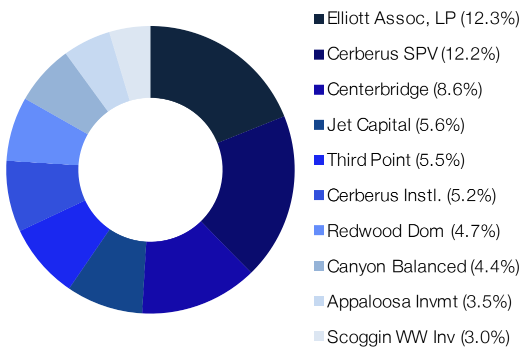
Dividend history



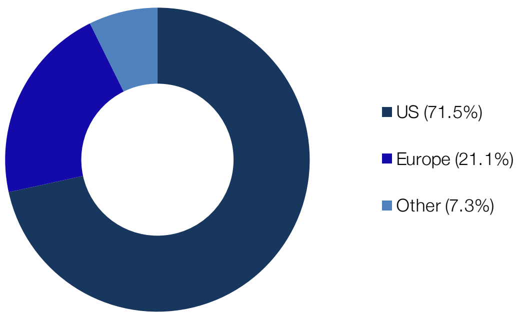
Investment exposures of portfolio (as at 31 January 2011)



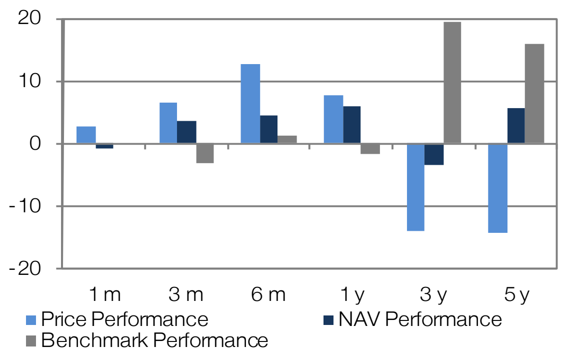
Portfolio composition (as at 31 January 2010)



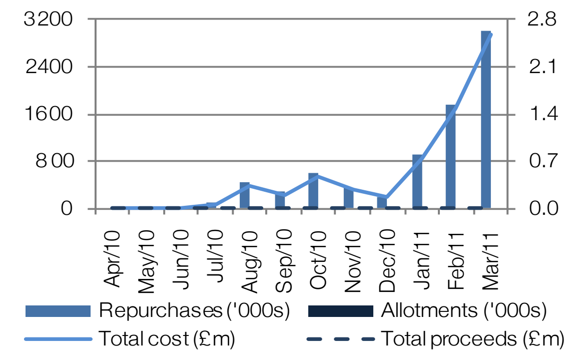
Geographic distribution of portfolio (as at 31 January 2011)



Price, NAV & benchmark total return performance (%)



Share repurchases and allotments (last 12 months)



Source: Acencia Debt Strategies/Edison Investment Research

Better Capital

12 months Ending	Total Share Price Return* (%)	Total NAV Return* (%)	Total Return HFRIFOF* (%)
31/03/2011	9.5	4.8	(0.6)

Note: *12-month rolling discrete performance.

Investment summary: Special situations/ turnaround fund at sizeable premium

Despite a challenging trading environment in 2010, Better Capital (BCAP) outperformed the HFR Funds of Funds Index (HFRIFOF) in terms of NAV total return by 5.4% during the 12 months to 31 March 2011. In terms of NAV/share during the same period, BCAP experienced an increase of 4.8% since the previous year. A more significant change has been seen in the share price, which increased to 118.8p, a gain of 9.5% on the previous year and a 16.7% overall increase since launch.

Investment objective: Capital appreciation

Better Capital's investment objective is to generate attractive total returns, expected to be largely in the form of capital appreciation, by investing in a portfolio of businesses within the United Kingdom and Ireland that have significant operating issues and may have associated financial distress. It aims to achieve this primarily by investing in the Better Capital fund. Un-invested or surplus capital or assets may be invested temporarily in cash or cash equivalents, money market instruments, bonds, commercial paper or other debt obligations.

Manager's view: Distressed debt at noteworthy premium

Even with this backdrop to the flow of restructuring opportunities in the marketplace, the fund's ability to source and execute (through a variety of mechanisms) a number of exciting opportunities is seen as very positive. The manager still believes the near-term outlook is promising for BCAP, as it is an investor that can capitalise on corporate underperformance, of which the manager expects there to be an abundance.

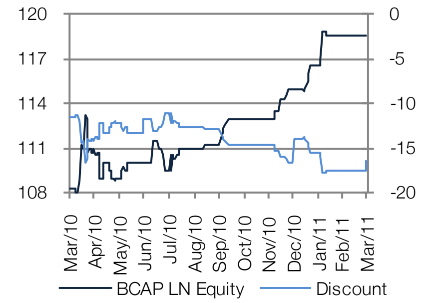
Valuation: Sizeable premium for shares

It is worth noting that the current level of 16.7% premium to NAV represents nearly a fourfold increase in the premium since launch in December 2009.

Current Price	118.8p
Market Cap	£245.6m
AUM	£208.6m
NAV	101.8p*
Premium to NAV*	16.7%
Yield	0 %

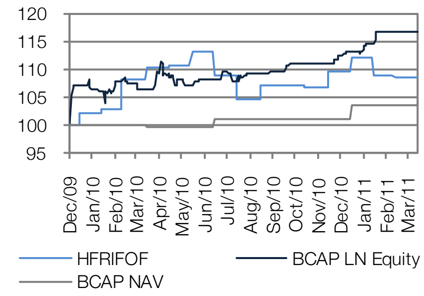
Current price as at 4 May 2011.
** Last published NAV as at 31 March 2011.*

Share price/discount graph



** Positive values indicate a discount; negative values indicate a premium.*

Cumulative performance since launch



Share details

Code	BCAP
Listing	UK - FULL
AIC Sector	Private Equity
Shares in issue	206.8m

Price

52 week	High*	Low*
Price	118.8p	108.7p
NAV	98.5p	97.1p

** As at 31 March 2011.*

Analysts

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investmenttrusts@edisoninvestmentresearch.co.uk

Exhibit 1: Investment company at a glance

Capital structure summary

BCAP has a conventional structure with one class of security in issue, ordinary shares of nil par value which carry no right to fixed income. Although BCAP is not expected to borrow, it has the power to borrow up to an aggregate amount equal to 10% of total commitments. There is no restriction on borrowings at levels below this, although it is anticipated that there will be little scope for such borrowing.

Forthcoming	
Year end	31 March
Preliminary	n/a
AGM	May 2011

Share buyback policy and history

BCAP has authority to purchase up to 15% of issued share capital per year.

Fund details	
Launch date	December 2009
Domicile	Guernsey (LSE listed)
Manager	Numis Securities Limited
Address	10 Paternoster Square London EC4M 7LT
Phone	+44 (0)20 7260 1000
Website	www.bettercapital.gg

Dividend policy

BCAP primarily targets capital appreciation. Distributions will only be made when the directors consider these to be feasible.

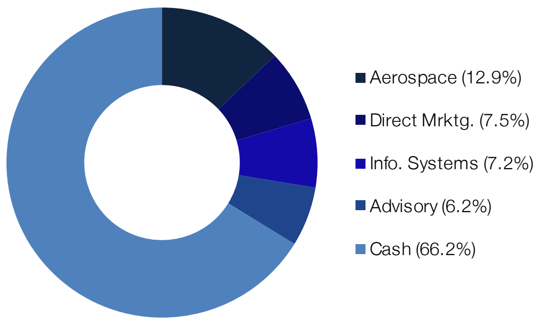
The board

Richard Crowder (chairman), Richard Battey, Mark Huntley, Philip Bowman (non- executive directors)

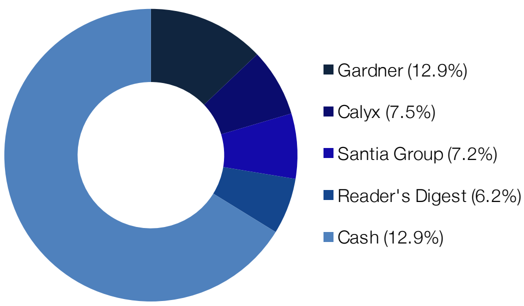
Dividend history

BCAP is yet to commence dividend payment.

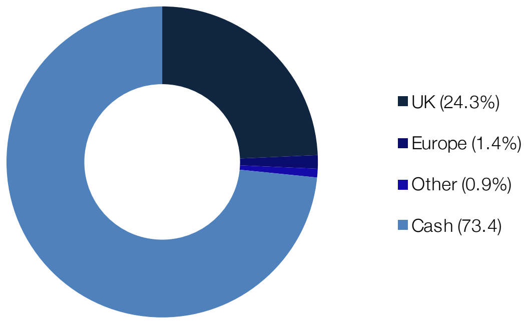
Sectoral allocation of portfolio (as at 1 February 2011)



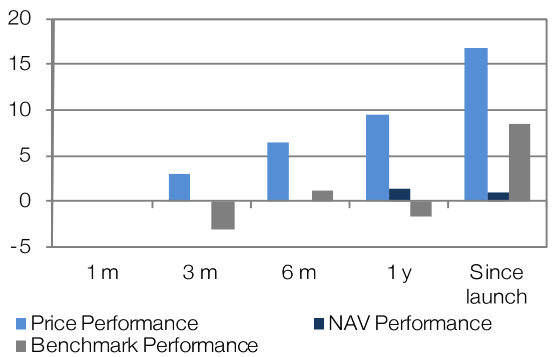
Portfolio composition (as at 1 February 2011)



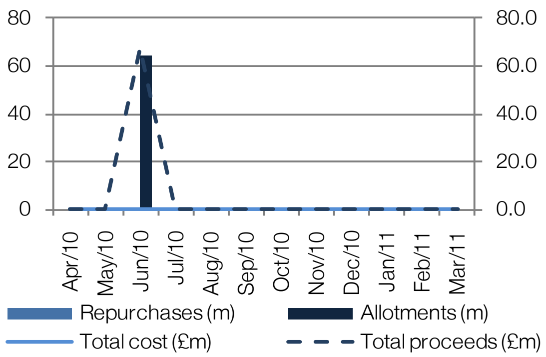
Geographic distribution of portfolio (as at 1 February 2011)



Price, NAV & benchmark total return performance (%)



Share repurchases and allotments (last 12 months)



Source: Better Capital/Edison Investment Research

Edison investment research

FRM Credit Alpha

12 Months Ending	Total Share Price Return* (%)	Total NAV Return* (%)	Total Return HFRIFOF* (%)
31/03/09	(41.9)	(23.6)	14.5
31/03/10	5.7	5.2	6.0
31/03/11	12.9	(5.2)	(0.6)

Note: *12-month rolling discrete performance. All information shown in this report is historic as the company is in managed wind-down.

Investment summary: Fund of funds at considerable discount

FRM Credit Alpha (FCAP) underperformed the HFR Funds of Funds Index (HFRIFOF) in terms of NAV total return by 0.8% and 4.6% for the 12 months ending 31 March 2010 and 2011 respectively. In terms of NAV/share for the latter period, FRM has seen a 5.2% decrease in NAV/share from 93.5p to 88.6p but an increase in share price to 79.0p from 70.0p, which is a 12.8% improvement from the previous year.

Investment objective: Significant returns over cash

FCAP's investment objective is to generate significant returns over cash, with low volatility and beta to global equity and credit markets, when measured over a market cycle. FCAP aims to achieve this by investing in a focused portfolio of credit funds. The portfolio is primarily composed of managers who adopt research-based value/event-driven or long-short strategies, with the intention that volatility and peak-to-trough drawdowns will be lower than those typically delivered by long-only portfolios.

Manager's view: Outlook remains uncertain

While there has been a notable improvement in financial markets, the economic outlook remains uncertain. Global capital markets remain exposed to substantial risks. 2011 is likely to be a year in which investors discover whether the government and policymakers' stimulus packages have been too much or too little. These may manifest themselves as excessive inflation or deflation respectively, both of which represent a threat to the recovery. In these circumstances, the manager will seek to provide downside protection in both inflation and deflation scenarios. It is worth noting that FCAP is currently undergoing a managed wind-down.

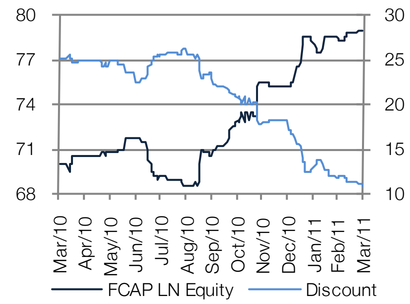
Valuation: Discount at average since launch

The discount, currently at 9.2%, is well below its all-time peak of 39.7% in December 2008, but it is just below the average discount since the launch date of the fund, which is 11.8%.

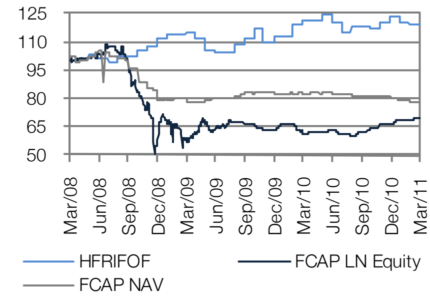
Current Price	79.0p
Market Cap	£52.2m
AUM	£57.5m
NAV	87.0p*
Discount to NAV*	9.2%
Yield	0%

Current price as at 4 May 2011.
** Last published NAV as at 22 April 2011.*

Share price/discount graph



3-year cumulative performance graph



Share details

Code	FCAP
Listing	UK - FULL
AIC Sector	Hedge Funds
Shares in issue	66.1m

Price

52 week	High*	Low*
Price	79.1p	68.5p
NAV	94.1p	88.6p

** As at 31 March 2011.*

Analysts
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Matthew Read +44 (0)20 3077 5758
investmenttrusts@edisoninvestmentresearch.co.uk

Exhibit 1: Investment company at a glance

All information shown in this report is historic as the company is in managed wind-down

Capital structure summary

FCAP has a conventional structure with one class of security in issue, ordinary shares of nil par value. FCAP began trading on 27 March 2007 with the placing of 46,000,000 shares of no par value at 100p each. At an EGM held on 3 June 2009, the company's shareholders voted unanimously in favour of authorising the company to make market acquisitions of up to 20% of shares. On 22 June 2009 the company announced that following the Closing Date for the Tender Offer the Basic Entitlement of 20% for all shareholders who had validly tendered their shares had been accepted in full. The Tender Offer was conducted on 12 August 2009. Following the completion of the Tender Offer, the company now has 66,133,577 shares in issue.

Forthcoming

Year end	30 June
Preliminary	October 2011
AGM	November 2011

Share buyback policy and history

FCAP does not engage in a share buyback policy.

Fund details

Launch date	April 2007
Domicile	Guernsey (LSE listed)
Manager	FRM Investment Mgmt Ltd.
Address	Royal Chambers, PO Box 173 St Julian's Avenue, St Peter Port Guernsey GY1 4HG
Phone	+44 (0)20 7968 6200
Website	www.frmcredit.com

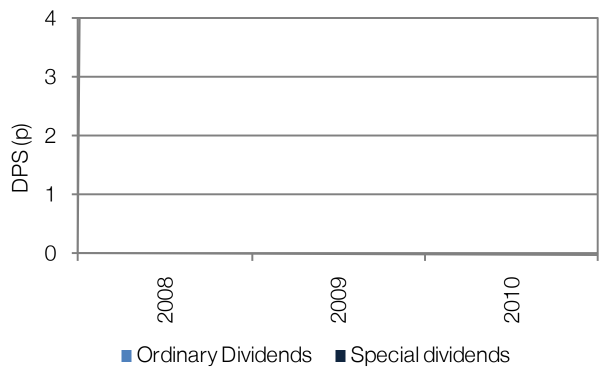
Dividend policy

FCAP does not pay cash dividends. It does, however, make annual distributions by way of redemption shares, subject to limitations.

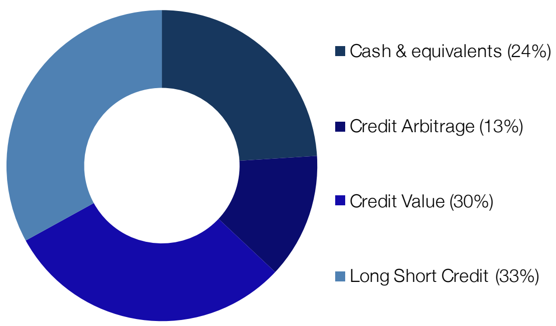
The board

Peter Atkinson (chairman), Richard Hotchkis, Andrew Duquemin (independent directors), Damian Johnson (non- independent director)

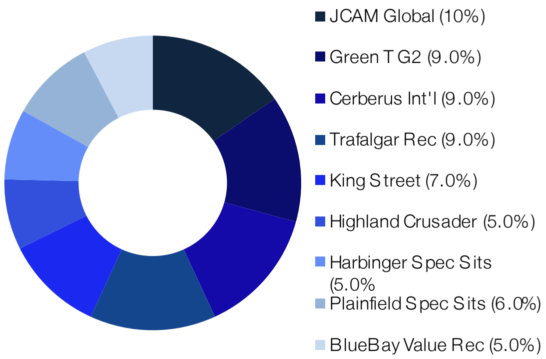
Dividend history



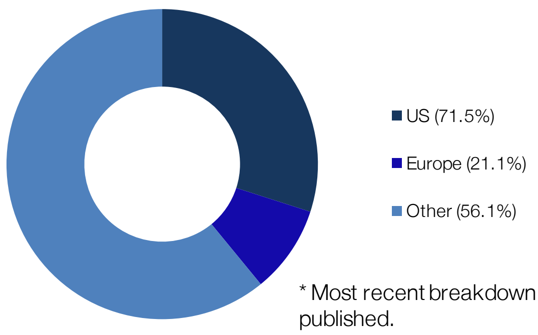
Sectoral allocation (as at 31 January 2011)



Portfolio composition (as at 31 January 2011)

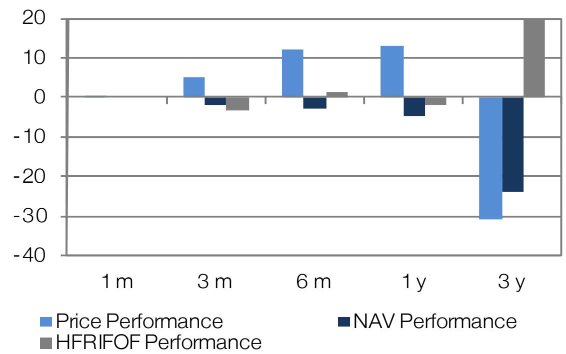


Geographic distribution of portfolio (as at 31 January 2009*)

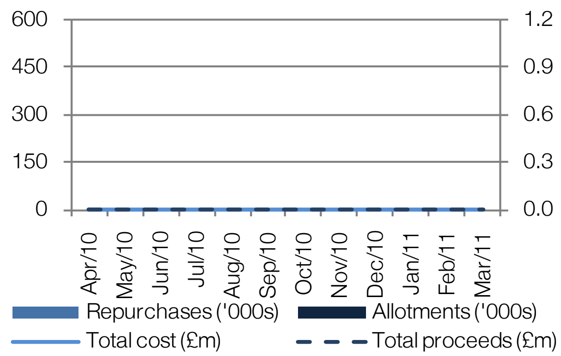


* Most recent breakdown published.

Price, NAV & benchmark total return performance (%)



Share repurchases and allotments (last 12 months)



Source: FRM Credit Alpha/Edison Investment Research

NB Distressed Debt Investment Fund

	Total Share Price Return* (%)	Total NAV Return* (%)	Total Return HFRIFOF* (%)
From launch to 31/03/2011	8.0	4.1	7.0

Note: *NBDD launched in June 2010.

Investment summary: Distressed debt fund at slight premium

Against the backdrop of the macroeconomic concerns dominating the trading environment in 2010, the NB Distressed Investment Fund (NBDD) was launched in June 2010. It has achieved a total share price return of 8.0% and a total NAV return of 4.1% since launch. With respect to share price, NBDD has seen its price increase to $1.08, which represents an 8.0% improvement from the launch price of $1.00.

Investment objective: Long-focused, distressed investing

NBDD's investment objective is to provide investors with attractive, risk-adjusted returns through long-biased, opportunistic, stressed, distressed and special situation, credit-related investments, while seeking to limit downside risk.

Manager's view: More opportunities ahead

The manager believes that the relative lack of capital for private companies will continue to result in opportunities for investing in distressed loans. In 2010 and 2011 (year-to-date), larger-cap public companies have benefited from improving access to credit markets. However, smaller private companies continue to face a constrained commercial lending environment. In 2010, the public high yield bond market saw record issuance of $277bn compared with $181bn in 2009, while bank lending to private companies declined. The manager believes the middle market segment is particularly attractive as it has very limited access to capital.

The manager believes that as banks' balance sheets improve, they are able to crystallise losses on smaller deals (ie write off non-performing assets), which is contributing to the availability of distressed debt. With the need for fresh capital by the middle market and availability of uninvested cash on corporate balance sheets, this has been one of the most attractive market segments for the manager as it is able to attract investors looking to increase return (eg to meet costs of capital) in a low-interest environment. In addition, there are fewer quality buyers in this segment than there were three years ago.

The fund is not run against a particular benchmark and the manager believes cash is the most appropriate benchmark.

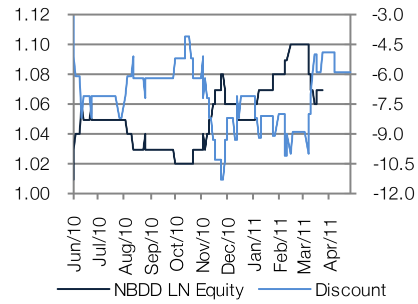
Valuation: Trading at slight premium since launch

The premium, currently at 5.9%, is below its all-time peak of 11.3% since its launch in June 2010.

Price	US$1.08
Market cap	US$475.4m
AUM	US$455.4m
NAV	US$1.02*
Premium to NAV*	5.9%
Yield	0%

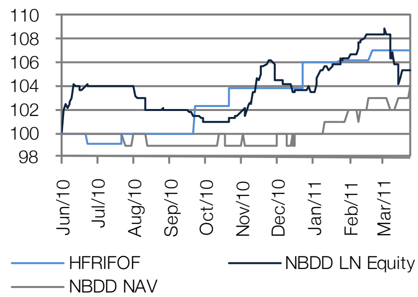
Current price as at 4 May 2011.
** Last published NAV as at 3 May 2011.*

Share price/discount graph



** Positive values indicate a discount; negative values indicate a premium.*

Cumulative performance from launch



Share details

Code	NBDD
Listing	UK SFM
AIC Sector	Debt
Shares in issue	440.2m

Price

Since launch	High	Low
Price	$1.10	$1.01
NAV	$1.02	$0.97

Analysts

Rana Halaby-Cooper +44 (0)20 3077 5700
Matthew Read +44 (0)20 3077 5758
investmenttrusts@edisoninvestmentresearch.co.uk

Exhibit 1: Investment company at a glance

Capital structure summary

NBDD has a conventional structure with one class of security in issue and Ordinary Shares of nil par value. Its share capital is denominated in US dollars and consists of Ordinary Shares. While the company will not employ leverage or gearing for investment purposes, it may, from time to time, use borrowings for share buybacks and short-term liquidity purposes, including for bridging purposes, before the sale of investments. Save for such bridging borrowings, the directors intend to restrict borrowing to an amount not exceeding 10% of the NAV of the company at the time of drawdown. The company has no borrowings at present.

Forthcoming

Year end	31 December
Preliminary	N/A
AGM	June 2011

Share buyback policy and history

NBDD has the authority to repurchase and allot an unlimited number of shares of no par value. NBDD is yet to utilise its repurchase authority.

Fund details

Launch date	June 2010
Domicile	Guernsey (LSE listed)
Manager	Neuberger Berman Europe Ltd
Address	BNP Paribas House, St Julian's Avenue, St Peter Port, Guernsey GY1 1WA
Phone	+44 (0)20 3214 9063
Website	www.nbddif.com

Dividend policy

NBDD is currently not paying a dividend.

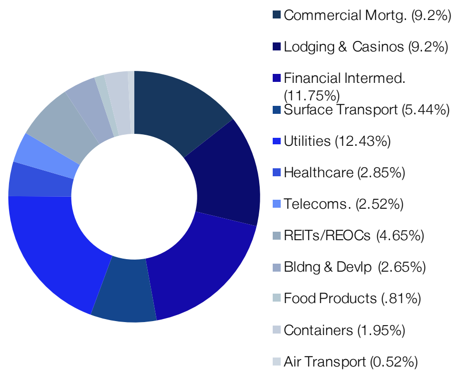
The board

Robin Monro-Davies (Chairman), Talmai Morgan, John Hallam, Christopher Sherwell, Michael Holmberg, Patrick Flynn

Dividend history

NBDD is yet to commence dividend payment.

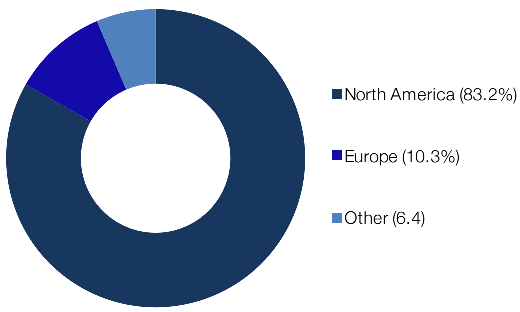
Sectoral exposures of portfolio (as at 31 March 2011)



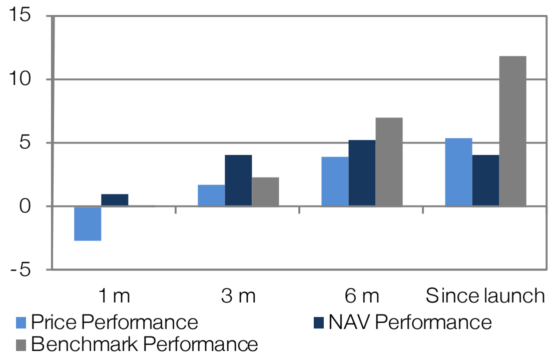
Portfolio composition (as at 31 March 2011)

Due to the nature of the asset class, information on the portfolio holdings is not available.

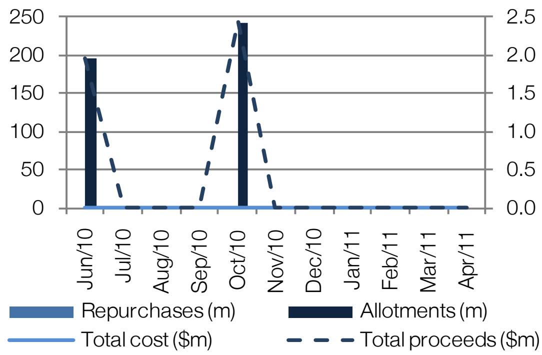
Geographic distribution of portfolio (as at 31 March 2011)



Price, NAV & benchmark total return performance (%)



Share repurchases and allotments (last 11 months)



Sources: NB Distressed Debt Investment Fund, Edison Investment Research

Saltus European Debt Strategies

12 Months Ending	Total Share Price Return* (%)	Total NAV Return* (%)	Total Return HFRIFOF* (%)
31/3/09	(72.2)	(32.6)	14.5
31/3/10	108.8	15.6	6.0
31/3/11	10.0	(2.2)	(0.6)

Note: *12-month rolling discrete performance

Investment summary: Distressed debt fund at a considerable discount

Against a backdrop of challenging conditions during 2010, Saltus European Debt Strategies (SED) put in a strong performance when compared to the HFR Funds of Funds Index (HFRIFOF) as at the 12 months ending 31 March 2010, exceeding it by 9.6%. Conversely, SED underperformed against the HFRIFOF in the 12 months ending 31 March 2011, with a total NAV return of -2.2%, which is 1.6% below the same index. This underperformance is reflected in the decline (2.2%) in NAV from 66.0p to 64.5p. However, the price increased to 52.3p from 47.5p the previous year, representing a 10.0% increase.

Investment objective: European distressed debt focus

SED is aiming to exploit opportunities predominantly, but not exclusively, in European corporate credit markets, with a key focus on distressed debt. To adhere to this, SED invests in a portfolio of absolute return funds. These are primarily hedge funds, but may also include long-only funds (debt and equity) and funds with longer lock-ups where the manager considers them to be appropriate.

Manager's view: Regulation exacerbating opportunities

The manager believes the European corporate credit markets currently represent an exciting opportunity for a vehicle of this type. This is due to debt strategies having historically generated higher risk adjusted returns, on average, than other hedge fund strategies. In addition, a number of structural and regulatory changes have taken place in Europe in recent years, including the adoption of the euro, the implementation of new bankruptcy legislation in several European jurisdictions, and the implementation of Basel II. Banks are likely to continue to sell underperforming loans as events continue to catch up with their provisioning.

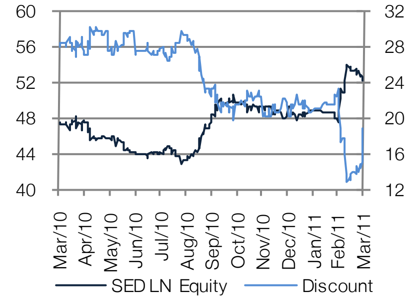
Valuation: Discount above long-term averages

The discount to last published NAV of 64.5p, currently at 20.2%, is substantially below its all time peak of 64.2% in March 2009 and is also below its longer-term average of 26.9% over three years.

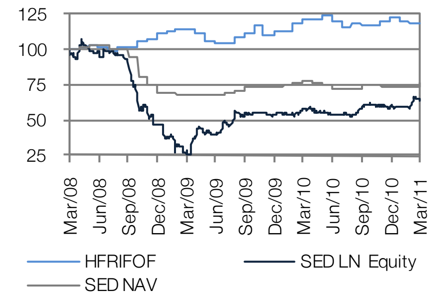
Current Price	51.5p
Market Cap	£19.9m
AUM	£25.0m
NAV	64.5p*
Discount to NAV*	20.2%
Yield	0 %

Current price as at 4 May 2011.
** Last published NAV as at 31 March 2011.*

Share price/discount graph



3-year cumulative performance graph



Share details

Code	SED
Listing	UK - FULL
AIC Sector	Hedge Funds
Shares in issue	38.7m

Price

52 week	High*	Low*
Price	54.00p	43.00p
NAV	65.98p	60.75p

** As at 31st March 2011.*

Analysts

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Saltus European Debt Strategies is a research client of Edison Investment Research Limited

Exhibit 1: Investment company at a glance

Capital structure summary

SED has negotiated a revolving credit facility with Bank Julius Baer for up to the lower of £30m or 40% of its net assets. The facility is a multi-purpose facility to make investments, to implement the company's currency hedging strategy, to meet ongoing working capital requirements and to provide leverage to the company's investment portfolio (up to 30% of its net assets) as the sub manager deems appropriate. The company's currency hedging policy will be for the purposes of efficient portfolio management only. SED has no intention of using the currency hedging facility for the purposes of currency speculation for its own account.

Forthcoming

Year end	31 December
Preliminary	n/a
AGM	May 2011

Share buyback policy and history

SED has authority to purchase up to 14.99% of issued shares to address any imbalance between the supply and demand.

Fund details

Launch date	June 2007
Domicile	Guernsey (LSE listed)
Manager	Saltus Partners
Address	18 Dering Street London W1S 1AQ
Phone	020 7290 9400
Website	www.saltus.co.uk

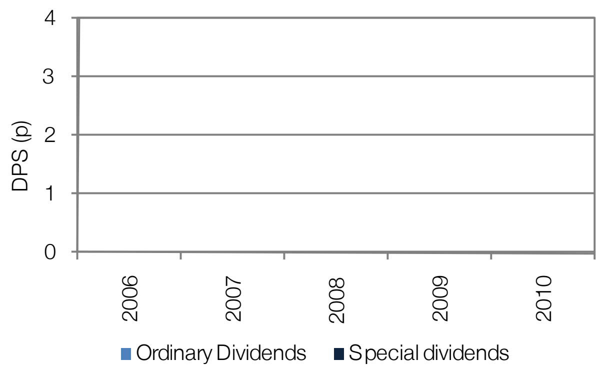
Dividend policy

SED pursues a pure capital appreciation objective and does not pay dividends going forward.

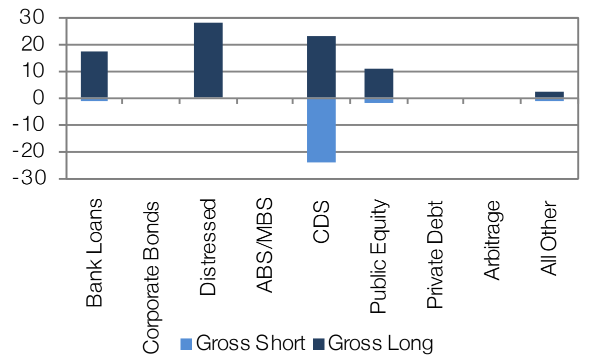
The board

J Baird (chairman), J Macintosh, R Dorey and C Sherwell (independent non-executive directors)

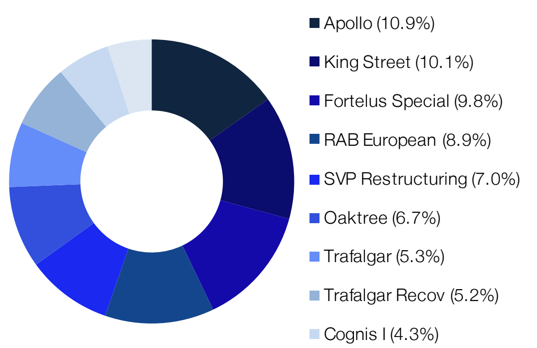
Dividend history



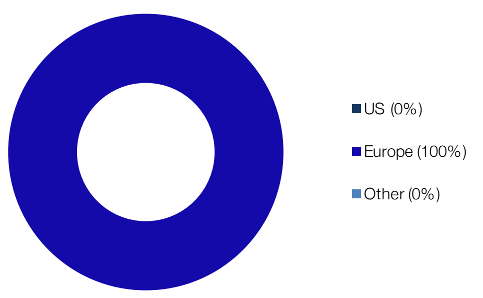
Investment exposures of portfolio (as at 31 January 2011)



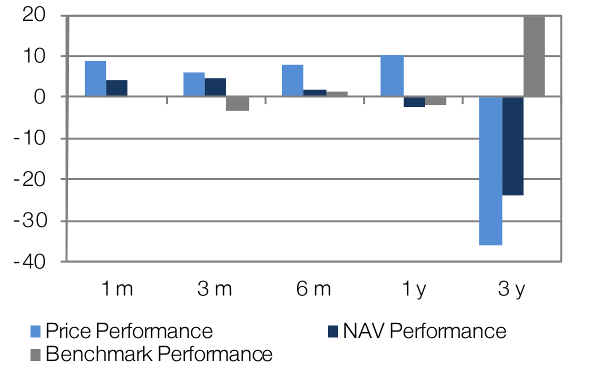
Portfolio composition (as at 31 January 2010)



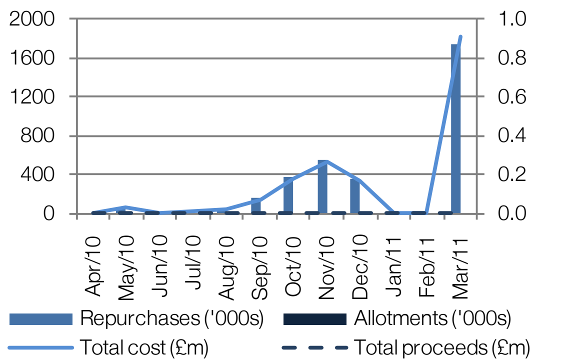
Geographic distribution of portfolio (as at 31 January 2011)



Price, NAV & benchmark total return performance (%)



Share repurchases and allotments (last 12 months)



Source: Saltus European Debt Strategies/Edison Investment Research

Signet Global Fixed Income Strategies

12 months Ending	Total Share Price Return* (%)	Total NAV Return* (%)	Total Return HFRIFOF* (%)
31/03/08	9.8	5.1	1.4
31/03/09	(48.8)	(17.1)	14.5
31/03/10	45.2	16.7	6.0
31/03/11	15.9	5.6	(0.6)

Note: *12-month rolling discrete performance

Investment summary: Fund of fund with narrowing discount as performance improves

Despite macroeconomic concerns dominating the trading environment in 2010, Signet Global Fixed Income Strategies (SIGG) outperformed the HFR Funds of Funds Index (HFRIFOF) in terms of NAV total return by 10.7% and 6.2% in the 12 months ending 31 March 2010 and 2011, respectively. In terms of NAV/share for the latter period, SIGG has achieved a 1.7% increase to 96.1p, but the real benefit to SIGG can be seen in the increase in its share price to 84.5p from 76.3p representing a 10.6% improvement from the previous year.

Investment objective: 8-12% pa absolute return

SIGG aims to preserve capital while generating positive returns equivalent to, or in excess of, the equity premium over cash deposits at the same time as providing relatively low volatility and limited correlation to market movements that affect traditional asset classes. To achieve this objective, SIGG invests in global credit markets and targets an absolute return of 8%-12% per year over a rolling three-year period. SIGG can also make direct investments but invests primarily through other Signet funds across a range of strategies.

Manager's view: Opportunities still ahead

The manager expects that event-driven positions will continue to produce protected profitable returns and there will continue to be a significant and increasing amount of maturing leveraged loans and high yield bonds through 2014. Much of this is concentrated in the highly leveraged LBO/MBO deals of 2006-8 vintage. Also driving this increase in event-driven positions is the current credit market environment, characterised by uncertainty and persistent structural inefficiencies. The manager believes it is rich in relative value credit investment opportunities, where anomalies in the market prices can be exploited by investors.

Valuation: Discount in line with three-year average

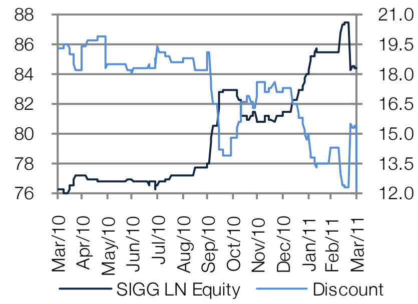
The discount, currently at 12.1%, is well below its all time peak of 41.3% in March 2009, but is more in line with its three-year average of 16.0%.

Current Price	84.5p
Market Cap	£81.0m
AUM	£95.7m
NAV	96.1p*
Discount to NAV*	12.1%
Yield	4.7%

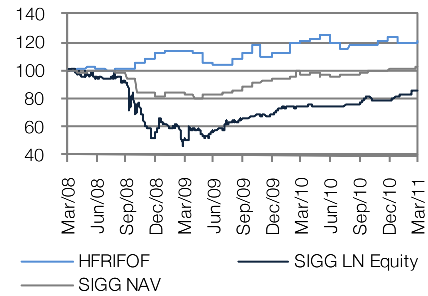
Current price as at 4 May 2011.

** Last published NAV as at 31 March 2011.*

Share price/discount graph



3 year cumulative performance graph



Share details

Code	SIGG
Listing	UK - FULL
AIC Sector	Hedge Funds
Shares in issue	95.8m

Price

52 week	High*	Low*
Price	87.50p	76.00p
NAV	99.75p	93.91p

** As at 31 March 2011.*

Analysts

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Exhibit 1: Investment company at a glance

Capital structure summary

SIGG has a conventional structure with one class of security in issue, ordinary shares of nil par value. It can issue an unlimited number of shares that may be issued as ordinary or C shares and may be dominated in any currency. During the year the company purchased through the market 4,660,000 of its own ordinary shares, to be held in treasury, at an average purchase price of 81.55p for a total consideration of £3,800,354. During March 2011, the board resolved to cancel the 4.8m shares held by the company in treasury. These treasury shares were actually cancelled on 9 March 2011.

Forthcoming

Year end	31 December
Preliminary	March 2012
AGM	April 2012

Share buyback policy and history

SIGG has the authority to repurchase up to 14.99% of issued share capital. SIGG also has authority to issue further nil par value shares.

Fund details

Launch date	November 2006
Domicile	Guernsey (LSE listed)
Manager	Signet Capital Management Ltd
Address	Buchanan House, 3 St James's Square, London SW1Y 4JU
Phone	020 7968 4040
Website	www.signetmanagement.com

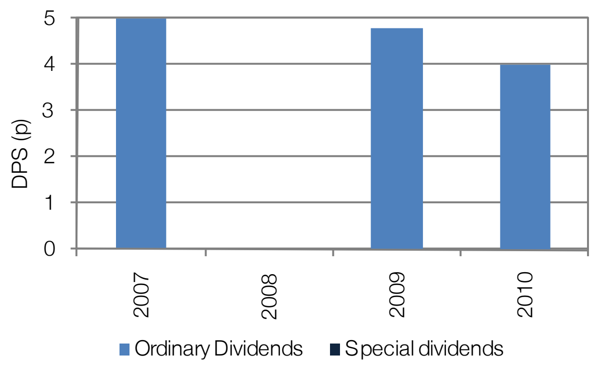
Dividend policy

SIGG aims to pay one annual dividend of at least one half of total returns capped at 5% of the NAV at the start of the accounting period.

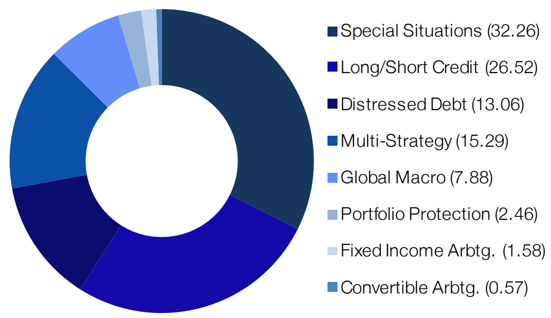
The board

T.Morgan (chairman), M Henley-Roussel, A Pickering, D Staples (independent non-executive directors)

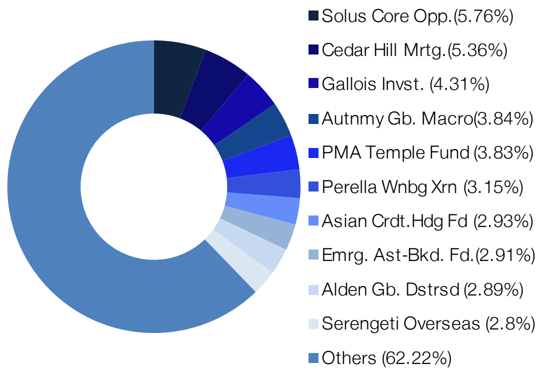
Dividend history



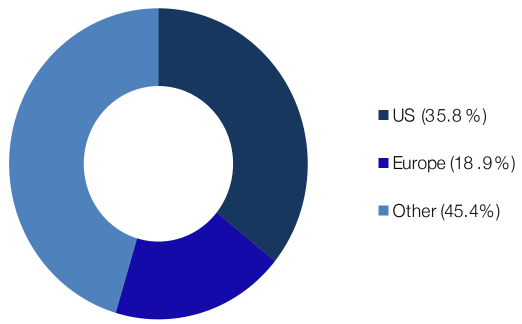
Strategy allocation of portfolio (as at 31 January 2011)



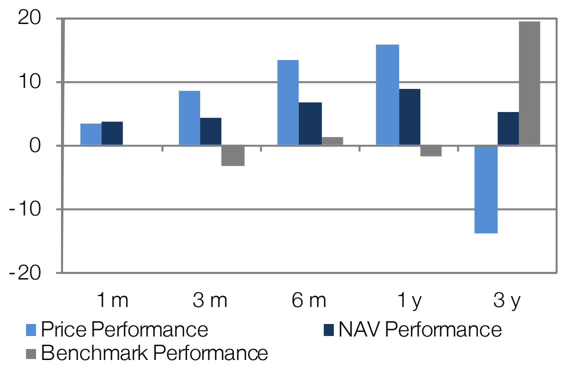
Portfolio composition (as at 31 January 2011)



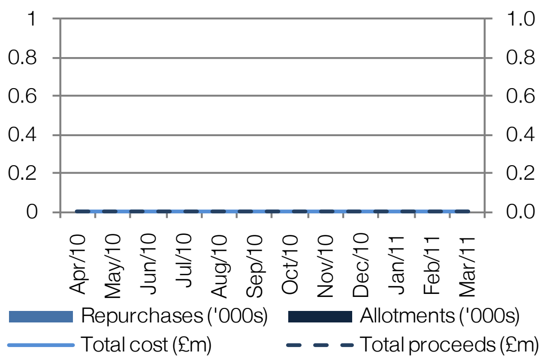
Geographic distribution of portfolio (as at 31 January 2011)



Price, NAV & benchmark total return performance (%)



Share repurchases and allotments (last 12 months)



Source: Signet Global Fixed Income Strategies/Edison Investment Research

Third Point Offshore Investors

12 Months Ending	Total Share Price Return – GBP shares* (%)	Total NAV Return – GBP Shares* (%)	Total Return HFRIFOF* (%)
31/03/09	(52.5)	(39.2)	14.5
31/03/10	82.1	67.5	6.0
31/03/11	29.9	26.4	(0.6)

Note: *12-month rolling discrete performance

Investment summary: Hedge fund at a considerable discount

Overall, despite strong gains by both the equity and credit markets, 2010 was a challenging year as macroeconomic concerns dominated the trading environment. Third Point Offshore Investors (TPOG) put in a strong performance compared to the HFR Funds of Funds Index (HFRIFOF). As at the 12 months ending 31 March for both 2010 and 2011, TPOG gained 61.5% and 27% respectively over the HFRIFOF in terms of NAV. TPOG's NAV/share reflected similar gains with an increase of 23.8% from £9.84 to £12.18. In the same period, TPOG's share price also increased by 22.6% from £8.40 to £10.30.

Investment objective: Focus on spin-outs

TPOG continues to focus on spin outs and value-oriented investing. It also continues to seek event-driven opportunities and investments. This is in line with the manager's 'fondness' for post-reorganisation equities, and that portfolio theme continues through 2011. With regards to sector focus, the fund is very concentrated on energy. The fund will be closed to new investors from June 2011.

Manager's view: Conditions ideal for opportunities

The manager foresees a wave of corporate transactions on a scale not seen since 2007. The manager believes the reason for this upsurge in expected activity is due to a combination of factors, including record high levels of cash on corporate balance sheets, highly incentivised LBO firms, the return of cheap debt financing and anaemic top-line growth. The manager considers that this will create the kind of special situation equity opportunities that are a core part of TPOG's strategy.

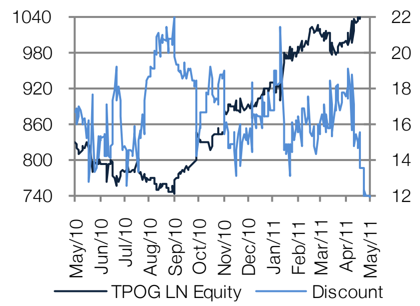
Valuation: Discount slightly lower than average

The discount, currently at 10.3%, is substantially below its all time peak of 52.9% in December 2008 and is also below its longer-term average of 19.7% over three years.

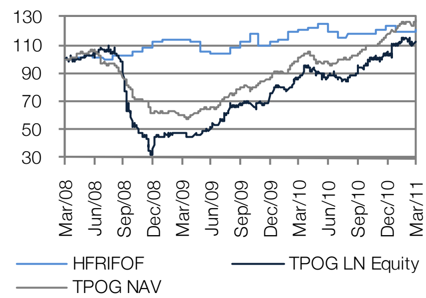
Price	£11.1*
Market Cap	£26.0m*
AUM	£28.3m*
NAV	£12.38**
Discount to NAV**	10.3%
Yield	0 %*

Current price as at 4 May 2011.
**of GBP share class.*
*** GBP share class published NAV as at 27 April 2011.*

Share price/discount graph



3-year cumulative performance graph



GBP Share details

Code	TPOG
Listing	UK - FULL
AIC Sector	Hedge Funds
Shares in issue	2.3m

Price

52 week	High	Low
Price	1,038p	745p
NAV	1,228p	914p

Analysts

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Exhibit 1: Investment company at a glance

Capital structure summary

TPOG has an authorised share capital consisting of $2m divided into two million participating shares of .01 value each. The fund issues a separate series of shares to those investors who purchase shares as of the first business day of each month. Shares are offered in series at a purchase price of $100 per share. As of 31 December 2010, there were eight outstanding share classes; within each class there is one or more separate series. Each share is equal to every other share of the same series with respect to earnings, assets, dividends and voting rights. Class E and F are currently offered while Class B, D, F, K will generally not participate in profits and losses from 'new issues'. Classes of shares vary with respect to redemption rights, lock-up periods and fees.

Forthcoming

Year end	31 December
Preliminary	N/A
AGM	May 2011

Share buyback policy and history

The directors have authorised the investment manager to repurchase up to 5% of issued share capital with a view to managing the discount.

Fund details

Launch date	July 2007
Domicile	Guernsey (LSE listed)
Manager	Third Point LLC
Address	18th Floor, 390 Park Avenue, New York, NY 10022 US
Phone	+1 (212) 224 7400
Website	www.thirdpointpublic.com

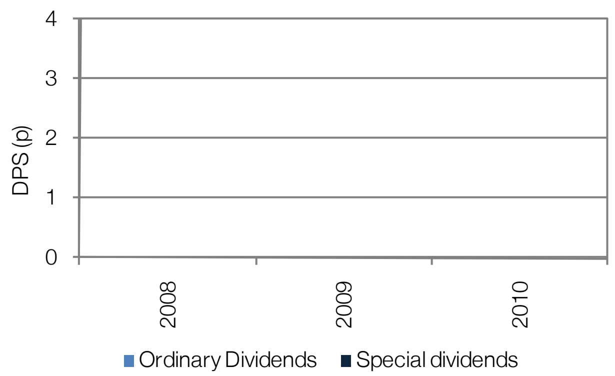
Dividend policy

TPOG does not pay dividends.

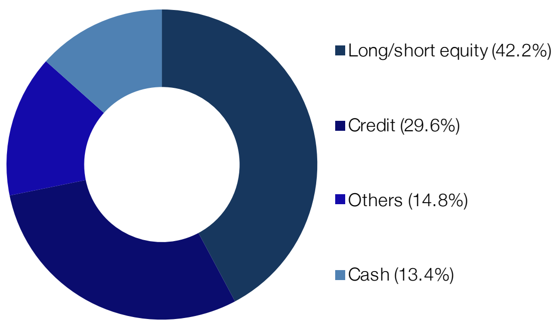
The board

Marc A Autheman (chairman), Keith Dorrian, Christopher N Fish, Christopher F L Legge, Joshua L Targoff (directors).

Dividend history



Net exposures of portfolio (as at 31 March 2011)



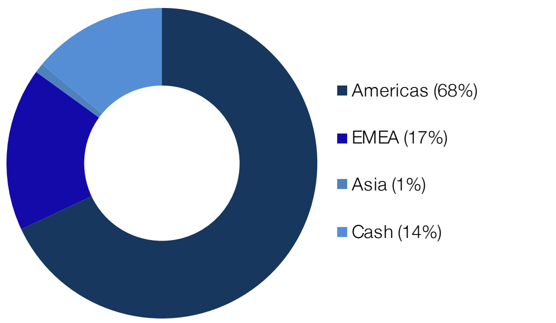
Portfolio composition (as at 31 March 2011)

Top 5 holdings are:

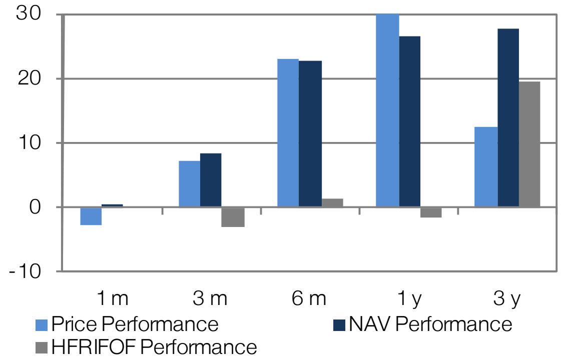
- Gold
- Delphi Corp.
- Chrysler
- El Paso Corp.
- NXP Semiconductor NV

Proportions not available

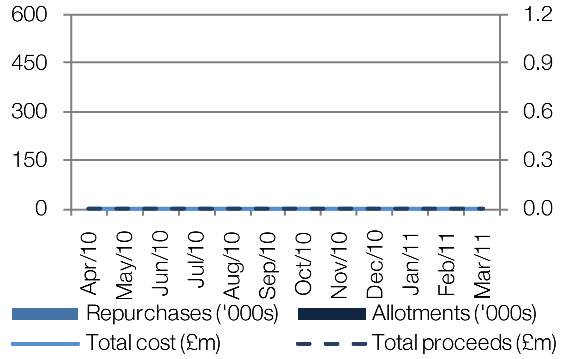
Geographic net exposures of portfolio (as at 31 March 2011)



Price, NAV & benchmark total return performance (%)



Share repurchases and allotments during the last year



Source: Third Point Offshore Investors/Edison Investment Research

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