



AA+
04/2009

Trafalgar

Capital Specialized Investment Fund-FIS

Product Profile

Fund Name	Trafalgar Capital Specialized Investment Fund – FIS
ISIN	LU028528287289, LU028528287529
Investment universe	small and mid cap listed companies
Benchmark	-
Base Currency	EUR (also USD class)
Earnings	accumulation
Inception date	22.02.2007
Fund Volume	EUR 116 m as 28.02.2009 (all classes)
Management Fee	2% p.a. + 20 % Performance Fee (without Hurdle Rate)
TER	-
Fund Manager	Andrew Garai, Bob Press
Company	Trafalgar Capital Sarl
Internet	www.trafcap.com

Investor's Profile

Investment horizon	mid- to long-term
Risk classification	high
Return expectations	12-18 % p.a.
Loss Tolerance	short-term losses are possible

TELOS Comment

The *Trafalgar Capital Specialized Investment Fund-FIS* is an innovative special investment fund (SIF), which was set up under the new Luxembourg SIF Law in February 2007. The fund is managed from London and Florida by Trafalgar Capital Advisors.

Trafalgar Capital Specialized Investment Fund-FIS operates under a discretionary mandate, and specialises predominantly in off-market financing of listed small and mid cap companies. Its goal is to offer growing listed companies global alternative financing opportunities, in order to strengthen their equity base. This enables small and mid cap companies to avoid the complaints arising as bank curtail activities in light of Basel II. These companies may fail to comply with banks' traditional valuation procedures or therefore do not meet the criteria for a bank loan. Trafalgar Capital Specialized Investment Fund-FIS focuses on listed companies and endeavours to generate earnings of 1-2% per month (12-18% p.a.) for its investors through the use of an asymmetric strategy. The fund is not correlated with the capital markets.

The companies to be financed are selected on the basis of, inter alia, introduction from the *Trafalgar Capital Advisors* network. The extensive network of consultants, lawyers, financial intermediaries and small cap fund managers passes on the company contact details to *Trafalgar Capital Advisors*, thereby undertaking some of the prelim-

inary work for the fund. The companies are then subjected to intensive scrutiny and due diligence. Considerable importance is attached to personal visits to the companies in question. The entire transaction process, from kick-off to closing, is rapid, only taking around two months. *Trafalgar Capital Advisors* is however selective, because circa 75% of all requests are rejected. The fund is globally oriented with no top-down restrictions in relation to sector and currency allocation, but the point is also to avoid a risk of clustering.

Since its launch, the fund has generated double digit returns and exceeded its target. Monthly performance has been consistently positive. According to Trafalgar Capital Advisors, this is because the turbulence in the markets as a result of the sub-prime lending crisis and Basel II has brought a significant rise in demand for loans by companies. Until the markets recover, the number of transactions in the fund looks set to rise, due to lack of finance available for many listed companies. Since its inception, the fund already successfully concluded over 230 transactions, many of them cross-border. *Trafalgar Capital Specialized Investment Fund-FIS* is available in euro and dollar share classes. The minimum investment is 500.000 € or 500.000 \$.

Trafalgar Capital Specialized Investment Fund-FIS is rated **AA+**.



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Investment Process

The *Trafalgar Capital Specialized Investment Fund-FIS* is managed by *Trafalgar Capital Sarl*, a wholly-owned subsidiary of Trafalgar Capital Advisors. Portfolio management is undertaken by two offices (in London and Florida), where a total of 17 staff are employed. Although their responsibilities differ, the boundaries are relatively fluid. Andrew Garai in London is responsible for investor relation and corporate advisor sourcing and Bob Press as CIO is responsible for transactions. Its team approach is a key feature of the fund management.

Trafalgar Capital Specialized Investment Fund-FIS is one of the first special investment funds (SIF) set up under the new Luxembourg SIF law. The fund management invests in listed small and mid caps with market capitalisation below EUR 200 million. The fund is active in Europe, Asia, Australia, North America and the Middle East. Its investment philosophy is founded on the expectation that smaller publicly-owned companies frequently have limited capital procurement opportunities after their flotation.

The fund managers are normally in a position to conduct a due diligence procedure within a short period. They examine in particular the companies' overall levels of debt, the stability of their cash flows and the quality of their management. The fund managers stress that they make no in-

vestments in companies that they do not understand. If they decide to finance the company in question, the transaction is documented in a term sheet and the fund undertakes to complete the transaction irrespective of market fluctuations. As part of the deal, Trafalgar Capital Advisors receives assets as collateral.

Financial instruments such as convertible bonds, redeemable bonds, asset-backed securities and the company's own committed equity facilities are used for this purpose. The term of convertible bonds is up to 24 months. The coupon is 300 to 600 basis points above the Euribor. *Trafalgar Capital Advisors* has in principal the option of converting the loan into equities at a fixed conversion rate. If the share price is below the fixed conversion rate, then as a rule the financing company has the right to repay the full amount, in which case a higher repayment premium is payable.

In the current market situation *Trafalgar Capital Advisors* attaches a specific importance to a cash-flow development of the companies. The fund avoids long equity positions in order to keep market exposure as low as possible. Positions are not leveraged, and currency risk is passed on to the borrowers under the financing agreement.

Quality Management

The fund risk structure is reviewed at portfolio and company level. Risk management at portfolio level is achieved primarily through diversification. This involves, in particular, determining which companies most efficiently match the desired criteria of the Specialized investment fund. No internal limits, such as maximum country or sector allocation limits, are set. The fund managers decide on position weightings for the individual companies. The ag-

gregated exposure of a single position should not exceed 5% of the fund volume, and the largest position currently amounts to 3.94% of the fund volume. The portfolio currently includes 76 positions, made up of 44 companies, whereas with the half of them the subsequent deals have been closed. The companies involved are continuously monitored, a basic understanding of the investment in question being paramount.

Team

The staff involved in portfolio management have many years of corporate finance investment experience. The fund managers Andrew Garai and Bob Press are also amongst the Managing Directors and owners of Trafalgar

Capital Advisors. They have been working together for four years. All staff are graduates and have a number of years of relevant professional experience within their area of responsibility.



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Investment Characteristics

<i>Important external factors</i>	<i>Important control factors</i>

Product History

Monthly Returns

	2007	2008	2009
Jan	-	1.4	1.3
Feb	3.6	1.5	1.4
Mar	2.1	1.3	-
Apr	2.0	1.9	-
May	2.3	1.7	-
Jun	2.1	1.6	-
Jul	1.5	1.6	-
Aug	1.3	1.6	-
Sep	1.2	1.4	-
Oct	1.9	1.3	-
Nov	1.0	1.4	-
Dec	1.4	1.3	-
Fund	22.4	19.6	2.7

<i>Statistics per end of Feb 09</i>	<i>1 year</i>	<i>2 years</i>	<i>3 years</i>	<i>5 years</i>	<i>7 years</i>	<i>10 years</i>
<i>Performance (annualised)</i>	19.30%	20.46%	-	-	-	-
<i>Volatility (annualised)</i>	0.68%	1.14%	-	-	-	-
<i>Sharpe-Ratio</i>	22.45	14.43	-	-	-	-
<i>Best monthly result</i>	1.88%	2.32%	-	-	-	-
<i>Worst monthly result</i>	1.27%	1.00%	-	-	-	-
<i>Median of monthly results</i>	1.42%	1.48%	-	-	-	-
<i>Best 12-month result</i>		21.62%	-	-	-	-
<i>Worst 12 month result</i>		19.17%	-	-	-	-
<i>Median of 12-month results</i>		19.67%	-	-	-	-
<i>Maximum loss period</i>	0 M	0 M	-	-	-	-
<i>Maximum loss</i>	0.00%	0.00%	-	-	-	-

Fund vs. Benchmark

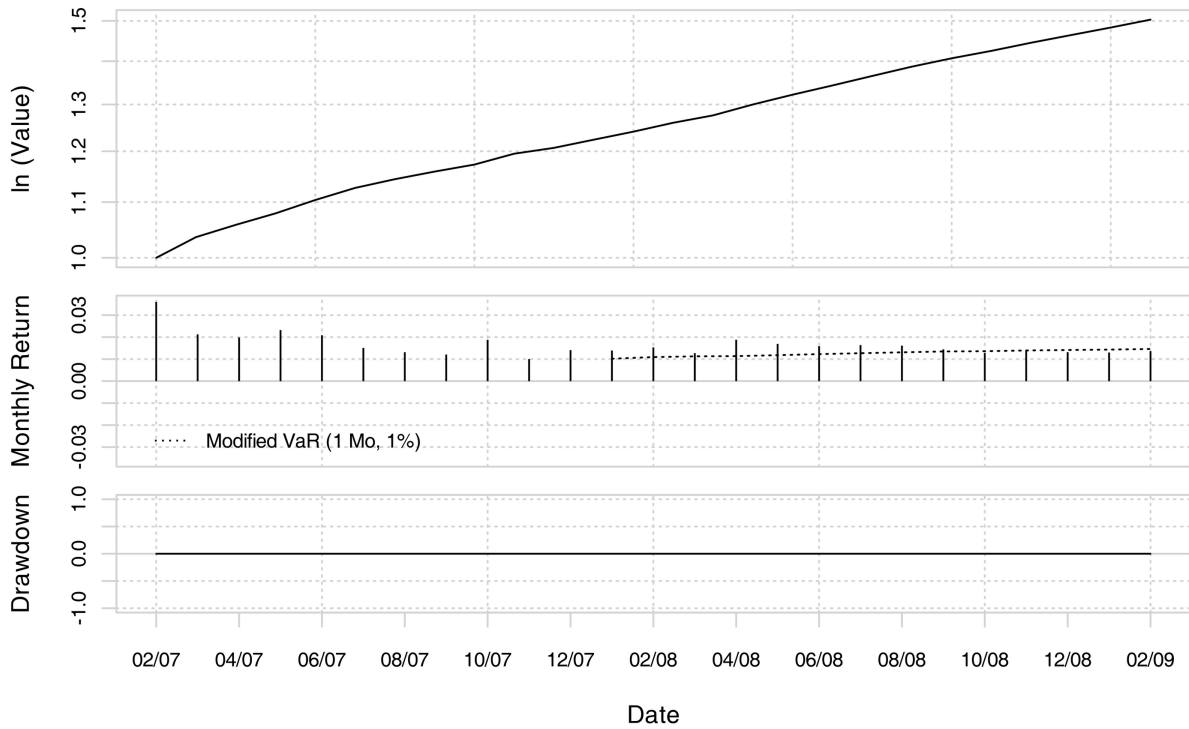
Jensen alpha	-
Beta	-
R^2	-
Annualized Alpha	-
Correlation	-
Tracking Error	-
Active Premium	-
Information Ratio	-
Treynor Ratio	-



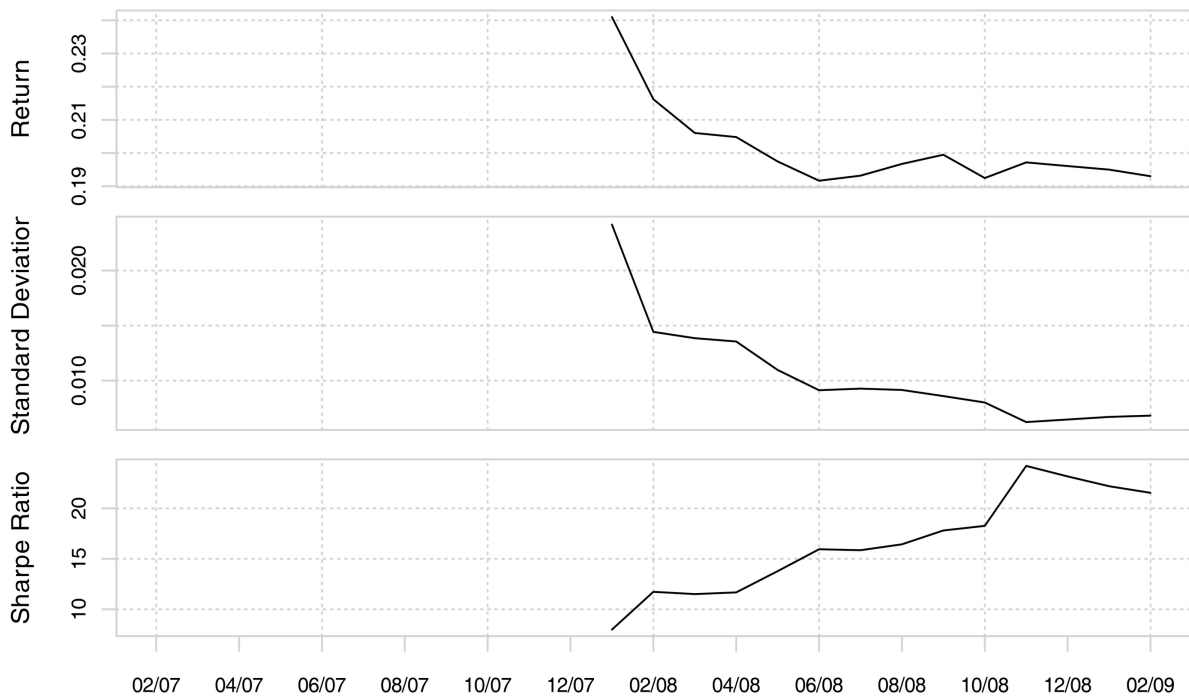
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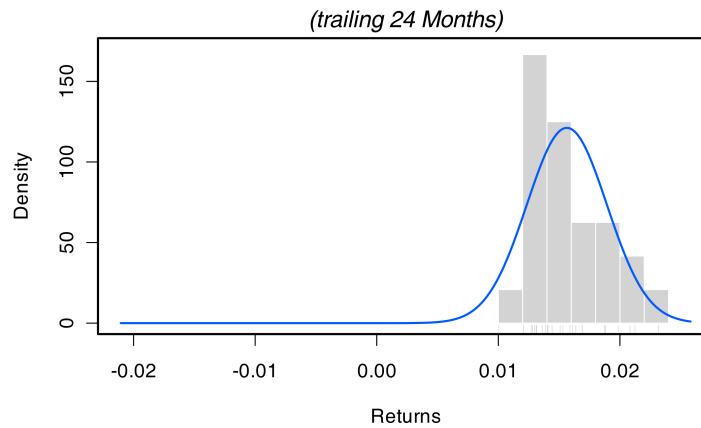
Performance



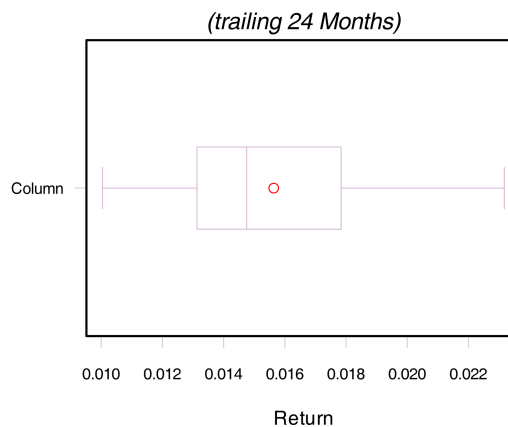
Rolling 12-Month Performance (annualised)



Histogram of monthly Returns



Boxplot of monthly Returns



Explanations

TELOS Rating Scale

AAA	The fund complies with highest quality standards
AA	The fund complies with very high quality standards
A	The fund complies with high quality standards
N	The fund does currently not comply with the TELOS quality standards
+ / -	further differentiate within a rating level

The **Product Profile** contains general information on the fund, the investment firm, and the responsible fund manager.

The **Investor's Profile** enables the investor to quickly match his or her expectations with the "official" classification of the product by the investment firm.

The **TELOS Comment** section summarises the main insights of the rating and constitutes an important supplement to the rating grade. The subsequent sections contain

descriptive information on the investment process, the quality management, and the responsible team.

The **Investment Characteristics** lists – from the point of view of the fund management – the most important external determinants influencing the performance of the fund, as well as the essential factors employed for its control.

The **Product History** presents – by means of graphs and tables – the development of the fund in comparison



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with the money market and a benchmark (where appropriate) in respect of performance and risk criteria. All calculations are based on month-end data. Fund data and benchmark data are provided by the investment firm.

The *performance* of the fund is calculated based on reinvested prices: profit distributions are being invested in new shares of the fund immediately. Thereby, the performance of distributing and nondistributing funds is mutually comparable. This approach corresponds to the "BVI method" of performance calculation, advocated by the association of the German investment fund industry. If the fund management is guided by a *benchmark*, the performance of the latter is shown as well. Otherwise, a suitable comparative index is chosen for illustration purposes – in agreement with the investment firm.

The *Sharpe Ratio* provides information about the "excess return" of the fund with regard to a risk free financial investment – here represented by the money market – as a proportion of the total risk taken. The risk free rate used in this report is 4%, and the *volatility* is the annualised standard deviation of the monthly returns.

The *median of monthly results* is characterised by the fact that half of all monthly returns occurring in the observed period are either at least or at most as large as this value. As a result, this measure is less sensitive to "outlier results" than, for instance, the mean (average) value of monthly returns. In an analogous way, the *median of 12-month results* should be interpreted. The *longest loss* period is the number of months needed by the fund in order to recover losses by reaching or exceeding a level that had been achieved previously in the period under consideration. If this level could not be reached again, the end of the period is used. Accordingly, the *maximum loss amount* is the largest loss which the fund suffered in the period under

consideration – starting from the highest value reached earlier during this period.

Jensen Alpha measures the beta-risk-adjusted (cf. beta) outperformance of the fund versus the benchmark and is calculated using monthly returns. A positive value indicates the generation of added-value by the fund's management.

Beta is a measure of the fund's market risk exposure. A Beta larger (smaller) than one indicates that the fund will be more (less) volatile than the benchmark.

R^2 is the square of the correlation coefficient (cf. correlation). It is the measure of the quality of a linear fit on the fund's vs. the market's returns. It ranges between 0 (bad fit) and 1 (good fit).

Correlation is a measure of how the fund and the market move in relation to each other. Correlation ranges between -1 and +1. The extreme values i.e. -1/+1 indicate that the fund and the market always move in lockstep, for -1 in opposite directions, for +1 in the same direction. 0 indicates there is no clear relationship.

The *tracking error* is the standard deviation of differences between fund and benchmark returns. The lower the tracking error, the more closely the portfolio follows the index.

Active Premium or excess return measures the Out/Underperformance of a fund vs. its benchmark.

The *Information Ratio* is the active Premium divided by the tracking error. The higher the information ratio, the higher the active premium of the fund, given the same level of risk.

The *Treynor Ratio* is the return in excess of the riskfree rate, divided by beta. The Treynor ratio is a beta-risk-adjusted measure of outperformance vs the riskfree rate.

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