DISTRESSED INVESTMENT STRATEGIES WITH VARYING LEVELS OF CAPITAL

	A1	A2	B	C
TARGET ASSETS [see page 2]	Liquid distressed undiversified [see page 3]	Liquid distressed with diversification. [see page 3]	Illiquid distressed with direct sourcing [see page 6 to 7] and Liquid Distressed	Distressed new finance & private equity [see page 4 to 5] and Liquid Distressed
TARGET RETURN	20% plus	20% plus	20% plus	20% plus
MINIMUM REQUIRED CAPITAL	USD 30 million	USD 100 million	USD 200 million	USD 300 million
NUMBER OF INVESTMENTS	2 to 3 credits	8 to 10 credits	2 to 6 portfolios & liquid credits	2 to 3 private equity deals & liquid credits
LEAD TIME TO FIRST INVESTMENT	3 to 5 months	3 to 5 months	6 months	1 year
ACTIVE INVESTMENT PERIOD INCLUDING LEAD TIME.	Annually	2 years	2 years	3 years
INVESTMENT DURATION	6 months to 3 years	6 months to 3 years	2 to 5 years	2 to 5 years
STAFFING	Portfolio Manager and junior analyst	Portfolio Manager and three analysts	Portfolio Manager, Junior PM , 3 analysts, 2 local sourcers	Portfolio Manager, Junior PM, 3 analysts

NOTES
a] In each case the minimum capital could be increased by a factor of 2 times without changing the staffing or number of investments or the profile of the strategy.
b] The number of investments and duration in columns B and C only relate to the non liquid distressed component although these strategies include liquid distressed

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THE ASSET CLASS

DISTRESSED ASSETS

Financial instruments which are in default or are subject to circumstances that lead investors to fear a high probability of default. As a rough guide these would be assets which trade with a yield of 15% or more. There are three broad categories of distressed asset.

[1] LIQUID DISTRESSED ASSETS - Page 3

Bonds, large, syndicated loans and bankruptcy claims which have a bid/offer from the broker dealer market. Information necessary to price these assets is readily accessible. Detailed information on loans [management accounts, documentation, waiver negotiations] usually requires execution of a confidentiality agreement "CA". In cases where the issuer has both loans and listed securities it is necessary to decide if you want to be public or private - can’t do both. CDS may be available for the larger issuances not in default. Source - major broker dealers.

[2] DISTRESSED NEW FINANCINGS AND DISTRESSED PRIVATE EQUITY - Page 4 to 5

Non-insolvent re-financings, post insolvency financing including DIP and exit equity sponsorship, and business purchases out of insolvency. Information necessary to do due diligence is only available by private negotiation. The information quality is excellent because you have direct access to management. Negotiation and due diligence usually extend over months with a strong element of exclusivity. Investment size tends to be material. Established distressed players often buy distressed assets and go on to provide finance. Source - Directors approached via owning legacy debt, advisors, industry contacts.

[3] ILLIQUID DISTRESSED ASSETS - Page 6 to 7

Small syndicated loans, bi-lateral loans, trade claims and bankruptcy claims which have never traded, have no price and are not available from broker dealers. Information necessary to price the asset is only available by private negotiation and is often fragmented or incomplete. Usually, the selling bank had no intention to trade the loan when originally issued. Information covenants tend to be unsophisticated and poorly administered. There may be obstacles and limitations to assigning the asset and collateral. Seller is usually the original lender and not in the business of buying and administering distressed assets. Source - direct from banks and specialist brokers.

LIQUID DISTRESSED ASSETS

CAPITAL REQUIRED

Given the expenditure in time and money to find good opportunities the minimum investment per credit needs to be about USD 10 to 15 million. Assuming some diversification over the life of the portfolio is required then the minimum funds available would need to be in the region of USD 100 million. To the extent that capital is available then it is more efficient to do larger sized investments given that analytical time and cost don't change. Where no diversification is required perhaps because the distressed investments were part of a larger credit strategy then you could embark on this business with as little as USD 30 million invested annually.

STAFFING

One portfolio manager and three experienced analysts (including some language skills) would be an ideal staffing level for a portfolio with some diversification. A smaller effort with less capital could be staffed by one manager and an analyst.

OTHER COSTS

Other costs include legal advisors in each jurisdiction in which you operate and third-party information providers. Approximately USD 100,000 per credit. Back office and funding cost not included.

START-UP LEAD TIME AND ACTIVE INVESTMENT PERIOD.

It will take some time to hire the team to full strength. It will take a couple of months to start building a roster of good investment candidates. Once a good credit has been identified and analysed it may take a number of weeks to build a position depending on pieces coming available for sale and to avoid pushing the price up. In some cases, work may be done to identify an investment candidate where there is a good probability that prices will fall in the future and so you may decide to hold off investing for several months For these reasons I would not expect the business to start making significant investments in the first three to six months. I would expect the active investment period to be two years including the initial start -up.

INVESTMENT DURATION

I would expect to hold these investments in a range from six months to three years.

DISTRESSED NEW FINANCINGS AND DISTRESSED PRIVATE EQUITY

DESCRIPTION OF THE INVESTMENT

In the below situations you get access to very high-quality information before you invest. Provided you act early, competition can be limited. If there are any other activist debt holders, they tend to co-invest. Once the directors have developed a relationship with the new finance providers, they will view them as their bosses, and they will not risk alienating them by using their control over the flow of information to drum up competition.

Examples:

DIP Financing with super priority status sanctioned by the court. DIP loans through the process of due diligence provides access to information not available to other participants. This can put the DIP lender in a very advantageous position to invest in other securities associated with the bankruptcy or bid to purchase the whole business.

Exit equity sponsorship of the business contingent on creditors accepting a binding plan that haircuts the debt. The plan is produced in conjunction with the directors who have much better information than what is made available to the creditors.

These opportunities can arise from either liquid or illiquid distressed situations. Often the only way to find out about these situations is to own a piece of the existing debt because the directors will be very concerned about confidentiality where the company has a distressed financing need and there is a risk of insolvency.

CAPITAL REQUIRED

The size of individual deals could vary greatly. I would estimate the individual minimum transaction size that is viable to be around USD 50 million given the commitment in time and expenditure. Regardless of any other factors the number of transactions that could be completed are limited by the commitment in time to each one. For that reason, this strategy on a standalone basis is not susceptible to diversification. A greater level of capital increases the size of the pool of deals that can be contemplated. This strategy would be done in conjunction with distressed secondary debt purchases. A reasonable level of capital for this combined strategy would be USD 300 million plus. You can augment your capital available to invest by partnering with other distressed investors. This also provides third party validation of the pricing and shares cost.

DISTRESSED NEW FINANCINGS AND DISTRESSED PRIVATE EQUITY Cont'd

STAFFING

One portfolio manager, Junior PM, three experienced analysts (including language skills).

OTHER COSTS

Other costs include legal advisors, other professional advisory firms and third-party information providers and servicing costs. Roughly USD 1 million plus per transaction.

START-UP LEAD TIME AND ACTIVE INVESTMENT PERIOD

In some situations, it will necessary to develop the relationship with the directors before they file for insolvency. This could involve a lead time of a year or more. I would expect the active investment period to be three years including lead time.

INVESTMENT DURATION

I would expect to hold these investments in a range from two to five years.

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ILLIQUID DISTRESSED

THE MARKET

Distressed being cyclical, the characteristics of each country's market is dynamic and changes significantly over time. Sourcing directly from banks can produce exceptional returns where the NPL market is not mature, and the supply is fragmented. Once a market matures to auctions that are well attended then it becomes less compelling. An early test presence in each target market is a worthwhile investment if you envisage committing substantial capital.

CAPITAL REQUIRED

The size of each illiquid secondary loan investment is dependent on how much a given bank decides to sell per transaction. It is not efficient for banks to sell illiquid assets in small parcels. As the market develops, I would expect the banks to tend to sell their illiquid assets as portfolios not as single assets. There could be a substantial variation in size from USD 10 million to 100's of millions. An adequate level of capital for this strategy would be around USD 200 million.

You only need to develop a good relationship with one or two banks to execute substantial deals. You can augment your capital available to invest by partnering with other distressed investors provided you have done the leg work to source good opportunities. I have partnered with established distressed investors in the past. This also provides third party validation of the pricing and shares cost.

STAFFING

One portfolio manager, a junior PM and three experienced analysts (including language skills) plus one local sourcer / door opener [see notes on sourcing] for each country in which you intend to operate.

OTHER COSTS

Other costs include legal advisors in each jurisdiction in which you operate, other professional advisory firms and third-party information providers and servicing costs [e.g. where a local bank must hold the assets because a banking license is required]. Roughly USD 0.5 million per transaction. Funding cost not included.

START-UP LEAD TIME AND ACTIVE INVESTMENT PERIOD

I would expect there to be six months before significant investments could start to be made. Lead time would include building your contacts and sourcing network in the chosen jurisdictions and hiring the team up to full strength and the lead time for due diligence on your first deal. I would expect the active investment period to run for two years including the lead time.

INVESTMENT DURATION

I would expect to hold these investments in a range from two to five years.

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ILLIQUID DISTRESSED Cont'd

SOURCING - SELLERS

A typical bank will have these assets administered by a workout department. They sell to both buyers and brokers. Factors that influence the decision to sell include the provisions against each loan compared to the discount on the par price offered and the write downs the bank is planning to absorb in that period.

It takes considerable time and effort on the part of the selling bank to gather the information necessary to allow the buyer to price the asset. This is because the administration and collection of financial information necessary to monitor the financial status of the borrower and the collateral is often overlooked until something goes wrong. Once things do go wrong the information picture becomes more burdensome (waiver negotiations, cross defaults, amendments, enforcement etc.). Information is always provided subject to a confidentiality agreement and often considered by the bank to be commercially sensitive. In my experience it is not unusual for the sellers to be understaffed to adequately collect the information and assess the assets they administer. The seller's concern is to deal with a credible counterparty who understands what they are doing, will meet their price expectations, maintain confidentiality and not waste their time.

Price expectations often diverge widely between seller and buyer. This can be caused by a lack of understanding or a lack of information.

In my view the ideal sourcing team is a local banker [to open doors] and a distressed professional acting as a principal backed up by local lawyers.

Value of transactions can range from USD 10 million to several 100 million. Sales can be an individual credit, or a portfolio of credits and they can be exclusive or by auction.

SOURCING - BROKERS

From the seller's perspective the broker adds value where he can introduce multiple credible buyers and provide pricing guidance. This is analogous to the role of an auction house.

Some sellers however will only undertake the effort and risk of providing information under a confidentiality agreement where the counterparty is a principal.

For this reason, the chances of success are improved when the broker steps between the buyer and the seller as principal for the purpose of closing deals. Some smaller brokers operate in this way using USD 20 to 30 million of capital [they will also be trading liquid distressed and high yield] . A second important aspect to the broker of being a principal is to keep the seller's identity confidential and not lose the relationship to the buyer. This issue can be somewhat ameliorated by the insertion of exclusivity clauses in the back- to- back confidentiality agreements signed between the broker and the buyer. A third important aspect of the broker holding a piece of each deal as a lender of record is to stay in the information flow.