



## ETSIOR MONTHLY OPINION - 15 AUGUST 2007

### Current Crisis and Investment Opportunities

Etsior selects strategies and funds that can bring an edge in asset allocation and portfolio construction.

Etsior focuses on funds that:

- Have an original strategy or approach
- Bring a real diversification
- Offer a good performance coupled with an acceptable risk
- Emerge from a strong idea, a forceful manager's personality or both

Etsior connects Fund Managers (Single Hedge Funds, Funds of Funds managers, Private Equity as well as Long only Funds) with Institutional Investors.

Well introduced in the Geneva area, we are focused on an unparalleled level of service.

Through our website, Etsior offers an easy access to reliable, up to date and accurate information on the funds we introduce as well as on third party funds.

Our selection is always put in the macro-economical perspective to exploit the short to medium term market trends.

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I won't elaborate much on the current serious crisis. It is amazing that the subprime mortgages, which represent a small part of all mortgages, have triggered this enormous pile of asset backed securities, themselves birth to all the Collateralized Debt Obligations (CDO), and CDOs based derivatives. CDO lenders to pass on the debt by slicing it up into tranches and bundling it together to sell on to investors are illiquid securities, complex to value.

The most surprising is that people who truly thought they were not at all exposed to the subprime actually are. The second surprising thing is the defiance that submerged the markets whatever the quality of the underlyings.

I have been impressed by the reaction of the central banks, at the same time worried, as it meant that the crisis was serious, and relieved as I had the feeling they were properly addressing the matter. All proportionally this is comparable to a line of people waiting to withdraw their savings on rumours their bank was experiencing difficulties. In this case the central bank has only two options: leave the bank collapse or dump truckloads of banknotes through the backdoor so all people can get their money. During this crisis, the banking system was at stake. The only glitch is the central banks are unable to differentiate the financial institutions which acted properly and the ones that took unconsidered risks, giving a prime to the latter.

Up to this crisis, my sentiment, several times expressed, was that the Fed would or keep the interest rates at their current level, or raise them.

A consequence of this crisis is a de facto rarefaction of available credit, a likely slow down of the consumer earnings growth in the next month or so; confidence and finances of consumers will be affected. In my opinion that the Fed will have to cut interest rates to limit the effects of the current crisis on the economy.

In my previous opinions, I have given some global trends which keep on fully up to date:

- Continuous growth in Asia, not really affected by the current crisis
- Consumer spending in Asia, especially in China and India
- Infrastructure spending in all emerging countries

Our **Private Equity** products (**Leisure fund China**, **Cypress Late Stage Venture**, coming **Viola / Partners Israeli 3rd PE fund**, ) are well positioned to be decorrelated and to offer a medium term return expectation.

The **Aegis funds**, with their very well selected, undervalued companies, are also a good way of playing on market opportunities and Asia growth .

The **ACP China Commercial Real Estate Fund** (+3.11% in July, +12.09% YTD) is a choice vector for investors in positions in China real estate and benefit from the probable appreciation of the renminbi vs. the dollar.

For credit finance funds, the **Eden Rock Structured Finance Fund**, though experiencing its first ever negative return (-2.7% in USD, +2.35% YTD), has demonstrated its defensive nature in an extreme market environment. The managers are confident that this will be borne out as the Fund outperforms over the next few months.

The **American Pegasus Auto Loan Fund** , though lending to subprime borrowers, is unaffected by the current turmoil and is on a +1.1% estimated trend for July. I have met the managers in San Francisco and have

comforted by their business model evolutions.

On the hedge fund front, the **Solid Rock Fund of funds** has performed extremely well in July (+1.3% in euro, YTD +6.60%), as well as the market neutral **HealthAlpha Fund** (+5.72% in euro, YTD 13.72%).

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