

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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Though "subprime" may sound like a dirty word those days, there are strategies which tap into this class of borrowers with a sound business model and that provide good, steady returns, uncorrelated performances and low volatility.

This is why it is important to look more precisely at the strategies of some of these funds and really understand how they may actually benefit from the current trends on the credit front.

I will take as an example the American Pegasus Auto Loan fund. This fund allows subprime borrowers to purchase a car, which would be forbidden to them otherwise. Using a car in rural United States is a must as no public transportation is available to go to work, to the grocery store or to the school.

Let's first look at the returns: in 2007 this fund returned +14.80%. It's volatility is 2.68% (Sharpe ratio of 6.12). Correlation with equity markets is negative. January returned +1.30% and the estimated return for February is +1.23%, which more or less puts us on a 15 to 18% trend for 2008.

Even more interesting, the default rate even decreased in 2007 to around 8% and the recovery rate remained stable to 80%. The cost of default, *already included in the performances*, is roughly 2% (8% x 20%).

This fund only finances loans on USED cars to avoid the new cars depreciation; they check every individual loans according to their underwriting criteria: residency and job history, annual salary, FICO credit score, need for guarantor.

Though interest rates are high (over 20%), they are fixed rates and the only collateral taken is the car itself, which is equipped with a GPS positioning system. The debtor can pay-off the loan at any time without penalty for instance if his/her credit has improved and if he/she is qualifying for a prime interest rate.

The edge of this fund lies in the processing of the defaults, in other word how they manage the Recovery Risk. They have built a network of towing companies, car repair shops, and car dealers so they can repair then sell the repossessed cars in the best financial conditions. Their ongoing goal is to reduce the time between repossessing the car and selling it. From 90 days, they have managed to reduced this delay to less than 60 days.

What would be the impact of a hard recession on the fund performances? Let's imagine the default rate doubles to 20%, which is highly unlikely. The burden on the return would be an additional 2%. Let's imagine the recession is really hard and the recovery rate gets down to 60%. This will take another 4%. Instead of a return of 15 to 18%, the return will then be 6% less, or a 9 to 12% return. Still not bad for very, very hard times.

There are funds out there in the credit space which can bring these kind of returns. This is why we believe it is always important to consider all the aspects of an investment and not being only carried by the floating news.

We care for you.

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