Corto European

February 2010

INVESTMENT TEAM

The investment team comprises of two senior portfolio managers, Nils Francke and Philippe Sarreau and an analyst David Dufour. Nils and Philippe have been investing together in a long/ short strategy for 5 years and in the European market for over 12 years. During this time they defined the seven categories of long/short investment which are now embedded in the Corto investment process. While not unique, we can claim that our strategy is being implemented by two very experienced fund managers with cultural roots coming from the two main economies of continental Europe giving both an Anglo-Saxon and a Latin touch to the process. This local anchorage is according to us of paramount importance when investing in small-mid caps companies where we can benefit from our understanding of local factors and our ability to interview senior management on site.

Nils Francke
Portfolio Manager
Total Return Equities team

Experience: 27 years
Tenure: 15 years

Before setting up the Total Return Equities team Nils headed Pictet's Specialist Equity unit which includes Small Cap and Sector Funds with assets of CHF 10bn.

Before joining Pictet, he spent three years with Schröder Münchmeyer Hengst & Co. in Frankfurt and previously worked for Salomon Brothers in New York and MM Warburg Bank in Hamburg.

Philippe Sarreau
Portfolio Manager
Total Return Equities team

Experience: 19 years
Tenure: 12 years

Previously, Philippe worked at Credit Lyonnais, where he developed a London-based small cap service. This position was built on his earlier experience as a French smaller companies analyst. Before joining Credit Lyonnais in 1994, Philippe was a Senior Auditor at Coopers & Lybrand.

David Dufour
Equity Analyst
Total Return Equities team

Experience: 15 years
Tenure: 2 years

Before joining Pictet, David spent over three years with Oddo Securities where he focused on French midcap companies. Previously he worked for nearly 10 years at JPMorgan in Paris and London, mainly in the Credit & Rates division.

WHY CORTO?

- A robust investment process with a distinctive analytical framework, refined over twelve years of investment practice in both long and long/short strategies.
- The strategy is implemented by two very experienced portfolio managers who developed the process together.
- Investment managers interest are aligned with those of the investors and there is a strong focus on performance generation.
- A hedge fund boutique within and institutional framework reduces operational and systems risk and facilitates long-term vision, while marketing and operational support services enable the portfolio managers to focus on portfolio management.

PHILOSOPHY

The Corto team believes that an actively managed long/short portfolio offers the best risk adjusted return for an European investor. While essentially bottom up stock pickers, they believe in a high degree of awareness about the current macro-economic and stock market cycle in order to drive exposure levels and concentrate the research focus within the portfolio. The stock specific research concentrates on the ability of companies to generate cash flows and re-invest those into increasing or decreasing (shorts) returns. While stocks should have a trigger for performance, the investment portfolio consists of growth and value stocks on the long and weakening (non-growth) business franchises on the short side, complemented by more tactical longs and shorts. Focused companies, which allow direct access to top management are seen as preferred investment vehicles.

INVESTMENT APPROACH

The Corto European Fund adopts a flexible investment approach in seeking to achieve its investment objective, in particular, it takes short as well as long positions in securities. The fund invests across a broad range of European industry sectors and countries using a stock-picking approach. Leverage is also employed with the aim of enhancing returns. It primarily, although not exclusively, invests in the ordinary shares and related instruments of small to mid capitalization (less than Euro 5bn) companies listed on a recognized European bourse or have their main activity or their headquarters in Europe.

INVESTMENT PROCESS

The Fund uses an approach which has been successfully optimized by the Investment Managers in long as well as long/short strategies. While a top-down view of global economic and market trends is developed to determine the portfolio and research focus, the main work is spent on bottom-up stock selection with great emphasis placed on company meetings and fundamental analysis. In normal market circumstances, the portfolio typically comprises between 30 to 50 long investments and 10 to 40 short positions. Long positions are characterized by the longevity of their holding periods, often up to over a year. Short positions are taken according to similar fundamental research principles but, the holding periods tend to be shorter due to the more opportunistic nature of the short selling market.

The usual position is between 1 - 5% on the long side and 1 - 3% on the short side. Positions are built gradually and their ultimate size depends on a combination of three factors: conviction in the investment, anticipated volatility of the stock and, liquidity of the share.

The Corto investment team has developed a distinctive approach to company analysis defining seven categories (Corto 7 or C7) of opportunities. This analytical framework, underpins all investment decisions within the investment process.

The first four (1 - 4) of the C7 categories are long positions, while the remaining (5 – 7) are short positions.

1. Emerging and;
2. Established Growth Companies
   - Those are companies which are able, over time, to maintain or increase their Return on Capital Employed. Companies that can grow their capital base, generate free cash flows (after replacement capex) that can be re-invested in the core business at stable or higher rates of return versus the past. Cash consumption is only acceptable if it is due to a temporary excess of good investment opportunities compared to the present cash generation of the company.
3. Asset Plays
   - Companies that generate stable or growing free cash flows which are returned to shareholders through generous dividends or accretive buy-backs.
   - Companies, often with a new management, that are involved in a balance sheet or portfolio of activity restructuring that will unlock the hidden value of the assets, within an acceptable time frame.
4. Tactical Plays (Opportunistic longs)
   - Investments linked to external factors not yet fully recognised by the market.
5. Weakening business franchise
   - Business franchises under threat (from competition, new entrants, change in suppliers or customer power, new technologies or regulations), and for which there is an expected drop in RoCe of the core business in the future;
   - Business franchises having reached their addressable market: for which there is an expected free cash flow to be reinvested at a declining rate of return;
6. Improper use of assets
   - Companies that are poorly managed or at which value is systematically destroyed.
7. Opportunistic shorts
   - When the Investment Manager has identified either/or
     - A decline of earnings due to external factors not yet fully recognized by the market or
     - Unrealistic market expectations.

GENERAL INFORMATION

Designed to generate long term capital appreciation combined with a degree of downside protection.

Domicile:	Cayman Islands offshore fund
Listing:	Ireland Stock Exchange
Prime Brokers:	Morgan Stanley and Goldman Sachs in London, Deutsche Bank
Share classes:	EUR and USD
Liquidity:	Monthly
Initial minimum investment:	EUR 100'000
Deadline for subscription/redemption:	60 days notice
Inception:	1 August 2006

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*(All Asia Pacific ex Japan)