

QUASAR CAPITAL MANAGEMENT

QUAntitative Strategies for Absolute ReturnSM

Investment objective

The investment objective is to maximize expected return using a diversified portfolio of liquid, transparent, and scalable quantitative absolute return strategies focusing on major markets.

Quasar seeks to achieve effective diversification and control drawdowns through a disciplined risk management methodology and a portfolio allocation process focused on the minimization of drawdowns.

- Target average annual volatility under 12%
- Target net Sharpe ratio above 1.3

Investment products

- Orion is a Cayman fund investing in the overall portfolio of strategies.
 - Orion started trading on Dec 8th 2008.
- Specific strategies can be accessed through managed accounts structures
 - Enables investors to build customized portfolio of strategies
 - First managed account was setup on Nov 3rd 2008

Investment styles

Quasar follows a set of diversified quantitative strategies, in two distinct investment styles

1. Low-Frequency Statistical Trading

- These strategies use non-linear multivariate statistical time series models of the price dynamics of one or more securities.
- They attempt to identify statistical opportunities of one or more securities relative to their expected value. Several market variables are often required to produce the positioning decision.
- We apply those strategies in highly liquid equity indices, commodity markets, foreign exchange, and fixed income markets.
- Being both low frequency and focused on major markets these strategies are particularly liquid and scalable.

2. Global Macro

- These strategies exploit relationships between fundamental macroeconomic variables and market prices.
- A combination of historical and fundamental analysis is used to assess probabilities for various future paths of economic aggregates such as GDP, inflation, corporate earnings.
- We then assess corresponding “fair value” paths of related markets variables such as bond yields, exchange rates, equity indices.
- We enter trades with an abnormally high subjective probability of success.
- We apply those strategies in highly liquid fixed income, foreign exchange, equity and commodity indices.
- Being both low trading frequency and focused on major markets these strategies are particularly liquid and scalable.

Performance and peer group analysis

A backtest portfolio of our statistical trading and global macro systematic strategies displays outstanding performance and diversification benefits Using monthly return data from Jan 2000 to November 2008:

- Annualized total return after fees of 24.9% with a maximum cumulative drawdown of 3.1%, a Sharpe ratio of 2.9, and a drawdown ratio of 10.2.
- Portfolio exceeds the S&P500 index total return by 28.7% per year over the period.
- Exceeds the CSFB Investable Hedge Fund Index by 21.6%
- Exceeds the CSFB Investable Global Macro Index by 20.7%
- Exceeds the CSFB Investable Managed Futures Index by 15.7%

Jan2000-Nov2008	Vol	Total Return	Sharpe ratio	Ddown ratio	Max ddown
Quasar Model Portfolio	7.1%	24.9%	2.9	10.2	3.1%
S&P 500	15.3%	-3.8%	NA	NA	45.0%
CSFB Investable Index	6.2%	3.3%	NA	NA	26.9%
CSFB Global Macro	7.8%	4.2%	0.1	0.1	30.0%
CSFB Managed Futures	15.3%	9.2%	0.5	0.6	16.5%

Monthly performance displayed in the table below prior to Dec 2008 is simulated (yellow cells), while from Dec 2008 onwards represents the actual realized performance of Orion fund (grey cells)

Total Return	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2000	29.9%	3.0%	3.0%	5.7%	1.4%	4.8%	1.0%	-0.4%	2.0%	4.3%	3.1%	0.7%	-1.9%
2001	21.1%	4.7%	2.3%	2.0%	0.9%	0.4%	0.4%	4.1%	2.3%	-3.1%	3.9%	-1.1%	2.8%
2002	33.4%	4.0%	1.1%	-3.0%	3.8%	4.7%	2.3%	5.6%	3.0%	-0.6%	3.6%	2.7%	2.2%
2003	26.0%	3.9%	2.3%	3.1%	-1.6%	1.8%	2.4%	0.6%	1.7%	6.4%	-1.4%	1.9%	2.4%
2004	7.9%	3.5%	0.1%	1.5%	-2.1%	-0.8%	2.3%	-1.1%	2.7%	-1.6%	2.2%	2.6%	-1.4%
2005	14.5%	0.2%	2.0%	0.8%	3.1%	1.8%	2.3%	0.5%	-1.8%	3.1%	1.7%	-0.6%	0.7%
2006	36.1%	3.6%	0.5%	3.8%	5.3%	1.8%	5.6%	2.1%	2.3%	2.5%	1.0%	0.8%	2.1%
2007	34.8%	5.8%	3.7%	4.6%	3.2%	0.5%	0.5%	1.5%	3.3%	1.6%	0.5%	3.2%	2.0%
2008	21.7%	1.3%	0.4%	-0.4%	3.0%	-1.5%	0.6%	1.8%	2.9%	1.9%	2.1%	7.9%	0.1%
2009	1.6%	0.9%	0.7%	-	-	-	-	-	-	-	-	-	-

Principals

Stephane Castillo-Soler. +33 1 58 44 00 52
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-- Formerly head of absolute return strategies within structured investment division of BNP Paribas Asset Management.
 -- Ran personally 2 billion in assets, with an excellent track record.
 -- Previously held both proprietary trading and market making positions on long term interest rates at SocGen and Paribas.
 -- 16 years of trading experience, extensive experience in quantitative models and systematic trading
 -- Master in Finance from University of Paris-Dauphine and a DEA in Finance from Sorbonne University

Jerome Barraquand. +33 1 58 44 00 51
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-- Formerly co-founder of GlobeOp Risk Services, serving the risk management needs of the hedge fund industry globally.
 -- Previously head of fixed income arbitrage at Sanwa Intl.
 -- Worked at Salomon Brothers as proprietary trader on the bond arbitrage desk and head of fixed income derivative research
 -- Combined 19 years experience in quantitative research, hedge fund risk management, and proprietary trading.
 -- Graduate from Ecole Polytechnique, France, Ph.D. degree in Computer Science from University of Nice-Sophia-Antipolis.

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Investment process

- **Trade idea generation:**
 - Existing portfolio of quantitative strategies continuously monitored using trading alerts across markets
 - Permanent research effort monitored by **research committee**
 - Research on current and new strategies is focus of half of the time of portfolio managers.
- **Asset allocation methodology:**
 - **Investment committee** uses blend of manager input, historical and risk measures, and market consensus to determine expected return and drawdown risks for each strategy
 - Conducts portfolio optimization under drawdown and other risk management constraints to allocate capital to strategies

Key differentiators

- **Market-tested strategies:** Our quantitative models incorporate many years of research and trading practice. Principals have a combined 35 years experience in
 - Proprietary trading (19 years)
 - Quantitative investment research
 - Hedge fund risk managementMany strategies have been successfully used in actual trading portfolios prior to the inception of Quasar.
- **Replicable strategies:** Our investment strategies provide superior transparency on the statistical behaviour of the P&L, thanks to
 - A quantitative approach, making investment styles rigorously defined
 - Rigorous portfolio allocation and risk management procedures
- **Truly uncorrelated:** Our strategies provide true diversification against systemic risks affecting many hedge fund strategies
 - No systematic equity exposure, unlike equity long/short funds
 - No systematic emerging market exposure, unlike emerging market funds
 - No systematic exposure to standard carry trades, unlike many global macro funds
- **Tail risk diversification:** Our strategies are very diverse, and our portfolio construction methodology is focused on tail risk diversification
 - Resulting drawdown ratio of our model portfolio is outstanding
- **Passion for innovation:** Principals are constantly searching for new or improved quantitative models to meet the investment objectives
 - Principals have extensive experience both in academic and applied investment research.
 - Principals have an outstanding and diverse experience in managing a quantitative research process to drive innovation

Risk management

- **Value at Risk and Expected Shortfall measures:**
 - **Portfolio level monitor (*total risk*):** Maximum daily 95% Expected Shortfall (ES) target under 4% of NAV. Expected average daily ES around 1.5% of NAV
 - **Trade level monitor (*trade concentration risk*):** Target marginal ES of any trade under 1% of NAV
 - **Risk factor level monitor (*market concentration risk*):** Target marginal ES of any distinct risk factor group (e.g. single index, commodity, currency, yield curve, volatility surface) under 1% of NAV.
- **Capital concentration:**
 - Capital allocated to any trade limited to 25% of NAV
- **Stop losses:**
 - Defined by portfolio manager on any trade as a percentage of allocated capital.
 - Monetary value of stop loss then defined by investment committee by setting the capital allocation to the trade.
- **Scenario and stress testing**
 - Both historical scenarios and forward looking stress tests are critical for assessing the extreme drawdown risks of various strategies, and build the portfolio accordingly.

- **Liquidity measures**
 - Measure *asset liquidity risk* as expected loss due to bid offer spreads in case of forced liquidation, as a function of market volatility and position size
 - Measure *funding liquidity risk*, to ensure market risk remains commensurate with ability to sustain heavy losses without forced liquidation of profitable strategies.
- **Counterparty credit risk measures**
 - Fund counterparties are top-tier broker-dealers
 - Creditworthiness of counterparties must be monitored in real time.
 - Best credit risk measure is market rate for default swaps on the counterparty, more current than agency ratings.

Legal structure and terms

- **Fund structure**
 - Orion is a Cayman fund with a standard Master-Feeder structure
 - Cayman offshore feeder
 - Managed accounts can be setup to devise customized portfolios of Quasar strategies
 - European onshore fund may be setup at a later stage
- **Fees**
 - Management fee: 2%
 - Incentive fee: 20% with high watermark
 - Monthly liquidity
- **Management company:**
 - setup under French law (SAS),
 - regulated by Autorité des Marchés Financiers (AMF)

Contact

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