

Mossberg's Investor Digest

Best Idea Profile:

Tetragon Financial Group (Euronext Amsterdam:TFG.AS)

DESCRIPTION:

Headquartered in Guernsey, United Kingdom; Tetragon Financial Group Limited is a closed-end investment company that currently invests in selected securitized asset classes and aims to provide stable returns to investors across various credit and interest rate cycles. TFG invests substantially all its capital through the Master Fund, in which it holds a 100% share. Investments are typically floating-rate, senior-secured obligations that generally arise from leveraged buyouts and merger activity. These investments usually are rated B/BB. They also tend to include restrictive covenants. These types of investments have historically stable returns due to senior position in the capital structure and first lien on collateral. Tetragon's managers have significant experience in the credit and structured credit markets. Collectively they have structured in excess of \$40B of transactions across multiple asset types.

KEY INVESTMENT CONSIDERATIONS:

Unique Offering – Tetragon offers investors a pure play in a diversified portfolio of securitized asset classes. The fund also offers greater geographic and sector diversification than many bank loan portfolios. Also, management has a hedge fund style performance incentive (1.5% per annum plus 25% of NAV increase) for the manager to outperform traditional fixed income investment vehicles.

An Improving Market – In contrast to the volatility and uncertainty which characterized the prior two years, 2010 witnessed a gradual stabilization of macroeconomic conditions and improvements in corporate credit quality, particularly in the United States. Numerous indicators reflected these positive trends, including: declines in leveraged loan defaults and fewer downgrades to Caa1/CCC+ and below, gains in leveraged loan prices, robust activity in the new issue high yield bond and leveraged loan markets, and a rally in secondary CLO debt and equity prices. In the context of these conditions, TFG's CLO investment portfolio outperformed average market default and Caa1/CCC+ holdings.

Activist Posture Yields Results – The Company realized value from its majority (or significant) positions in seven CLO investments during 2010, by positively affecting the outcome of certain corporate governance actions within those transactions, and by increasing the economics via upfront consent fees or long-term fee sharing arrangements.

Strategic Acquisition – 2010 was a year of strategic expansion of TFG's asset management platform. The integration of LCM into TFG's platform appears to have gone well. LCM's assets under management grew from approximately \$2.5 billion at the end of 2009 to approximately \$3.0 billion at the end 2010. This growth was a result of the assumption of collateral management duties of a U.S. CLO and the issuance of LCM VIII, a new U.S. CLO, in which the Company acquired a majority stake in the equity tranche.

Capital Appreciation and Payout –The fund could experience significant capital gains if the credit spreads continue to tighten in its portfolio. Tetragon is currently targeting a pay-out of 30%-50% of net income.

US Dollars – The fund is denominated in \$USD which means investors get access to a globally diversified fund without taking a currency exchange haircut on their investment due to a sinking dollar.

VALUATION:

Tetragon has a unique offering that provides investors a \$USD based vehicle to play the Global Credit Markets. Should credit spread continue tightening, the fund should continue to see improving results. Investors looking for such exposure should give Tetragon a close look.

(Euronext Amsterdam:TFG.AS) Investment Data (as of 4/29/11)

Recent NAV	\$7.60
52-Week NAV Range	\$3.87 - \$8.25
Fiscal Year End	Dec
Dividend (FY2010)	\$0.36
Yield	4.7%
Shares Outstanding	131MM
Average Trading Volume (3 mos)	65k
Estimated NAV	\$996MM
Cash	\$156MM
Long Term Debt	NA
Enterprise Value (EV)	NA
LT Debt/ Equity	NA
BV/ Share	10.85
TTM Revenue	NA
P/ Revenue	NA
TTM EPS	\$4.04
P/ EPS	2x

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