**April 26, 2012**

Tetragon Financial Group Limited (TFG) is a Guernsey closed-ended investment company traded on NYSE Euronext in Amsterdam under the ticker symbol “TFG.” ([[1]](#endnote-1)) In this report we provide an update on TFG’s results of operations for the period ending March 31, 2012.

* **Executive Summary**:

**TFG posted another strong quarter of results, although as expected the pace of growth has slowed compared to the dramatic recovery period of early 2011.**

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| * **Earnings per Share:** TFG generated EPS of $0.46 during Q1 2012 (Q4 2011: $0.69). | * **Distributions:** TFG declared a Q1 2012 dividend of $0.105 per share, unchanged from Q4 2011. The company also used over $9.1 million to buy back shares below NAV during the quarter. | * **Net Asset Value (“NAV”):** Rose to $1,510.1 million or $13.12 per share at Q1 2012, the highest level to date, and an increase of 3.2%, on a per share basis, from Q4 2011. |

*Figure 1* below shows an historical summary of TFG’s Net Assets, NAV per share and share price.



1. Source: NAV per share based on TFG’s financial statements as of the relevant quarter-end date; TFG’s closing share price data as per Bloomberg as of the last trading day of each quarter. Please note that the NAV per share reported as of each quarter-end date excludes any shares held in treasury as of that date.

* **Net Income:** Consolidated net income of $53.4 million for Q1 2012 (Q4 2011: consolidated net income of $80.3 million).

This Performance Report constitutes TFG’s interim management statement as required pursuant to Section 5:25e of the Netherlands Financial Markets Supervision Act (*Wet op het financieel toezicht*, “FMSA”). Pursuant to Section 5:25e and 5:25m of the FMSA, this report is made public by means of a press release and has been filed with the Netherlands Authority for the Financial Markets (*Autoriteit Financiele Marketen*) and also made available to the public by way of publication on the TFG website ([www.tetragoninv.com](http://www.tetragoninv.com)).

* **Executive Summary (continued)**:
* **Asset Breakdown:** The figures below illustrate the split of net assets by asset class at the end of Q1 2012 ($1,510,100,263) and Q4 2011 ($1,474,355,249), respectively.



**Investment Portfolio Performance Highlights**

**TFG’s U.S. CLO and direct loan portfolios continued to perform strongly in Q1 2012, although the comparatively small European CLO portfolio continued to underperform.**

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| * **Cash Flows:** TFG generated $102.6 million of cash flows from its CLO equity investment portfolio in Q1 2012 (Q4 2011: $113.2 million). | * **Collateral Performance:** TFG’s average CLO portfolio statistics performed well during Q1 2012 with low default and CCC-asset holding levels. This was driven by continued improvements in the credit quality of TFG’s U.S. CLOs, which offset the credit deterioration experienced by TFG’s European CLOs. | * **CLO Returns:** Weighted-average IRRs on CLO equity investments remained broadly unchanged at 17.5% (Q4 2011: 17.6%) with U.S. average IRRs increasing to 19.7% while the average IRR of TFG’s European CLOs declined to below 8.0%. |

* **Executive Summary (continued)**:

**Investment Portfolio Performance Highlights (continued):**

*Figure 3* below shows an historical summary of the weighted-average IRR on TFG’s CLO equity investments.



1. Source: TFG as of the outlined quarter-end date.

* **New CLO Equity Investments:** During Q1 2012 we continued to be active in the primary CLO market, investing $42.3 million into two new CLO equity positions, including a $19.4 million majority position in the equity tranche of a new issue CLO managed by LCM, LCM X. During the course of Q1 2012, we also sold a small U.S. CLO equity position, totaling approximately $0.2 million, at a price which generated a 50.2% realized IRR (including interim cash flows).
* **New CLO Mezzanine Debt Investments:** As mentioned in previous reports, early in Q1 2012 we invested approximately $1.1 million in a mezzanine debt tranche of a U.S. CLO already represented within TFG’s CLO equity portfolio. The investment continues to perform as expected and is current on all interest payments.([[2]](#endnote-2))
* **Direct Loans:** TFG held direct loans with a fair value of $120.3 million at the end of Q1 2012, up from $107.1 million as of the end of Q4 2011. The direct loan portfolio performed well during this period, experiencing no defaults and benefiting from market value gains.
* **Real Estate Investments:**  During Q1 2012 TFG invested a further $5.1 million into GreenOak-managed real estate.

We continue to seek to diversify the investment portfolio across asset classes and types, industries, geographies and investment duration.

* **Executive Summary (continued)**:

**Asset Management Segment: Q1 2012 saw continued growth in both asset management businesses.**

We believe that TFG owning or having stakes in asset management businesses may provide repeatable income streams and reduced fees paid to third-party managers.

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| **LCM:** LCM continued to perform well during Q1 2012, with all of LCM Cash Flow CLOs ([[3]](#endnote-3)) that were still within their reinvestment periods ([[4]](#endnote-4)) continuing to pay senior and subordinated management fees. With the addition of LCM X, LCM’s total loan assets under management rose to over $3.7 billion (Q4 2011: $3.4 billion). |  |

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| **GreenOak:** In Q1 2012 GreenOak achieved dramatic growth of its assets under management, with closings for its U.S. and Japanese funds and the winning of an investment mandate over a significant portfolio of European real estate related securities. |  |

* **Corporate-Level Performance Details:**
* **Capital Distributions**: TFG’s Board approved a dividend of $0.105 per share with respect to Q1 2012, unchanged from the prior quarter. As of March 31, 2012, inclusive of the dividend declared with respect to Q1 2012, the rolling 12-month dividend growth rate (year-on-year) was 20.6%. ([[5]](#endnote-5))

Since its public listing, TFG has distributed or declared a cumulative amount of approximately $1.89 per share via quarterly dividends. In addition, TFG’s NAV per share, as reported each quarter, among other things, reflects value created for shareholders via the repurchase of shares below NAV. During Q1 2012, TFG repurchased a total of 1,357,627 shares at an aggregate cost of approximately $9.1 million, at an average price of $6.73 per share. Since the inception of the buy-back program in 2008, TFG has repurchased a total of 17,458,169 shares, at an aggregate cost of approximately $91.1 million, at an average price of $5.22 per share. Please refer to *Figure 6* and *Figure 7* for a summary of TFG’s historical NAV per share, dividend distributions, and share buy-back program.



1. Source: NAV per share and Cumulative DPS as per TFG’s financial disclosures for each relevant quarter-end date. The cumulative DPS reflect dividends announced with respect to each relevant quarter. Please note that dividends announced with respect to each quarter are typically not distributed to shareholders until the beginning of the following quarter. Please note further that the NAV per share reported as of each quarter-end date excludes any shares held in treasury as of that date.

* **Corporate-Level Performance Details (continued):**
* **Capital Distributions (continued)**:



1. The Average Purchase Price of Shares Repurchased is a weighted-average using the number of shares repurchased each quarter and including commissions.

**Performance Fee**

A performance fee of $13.9 million was accrued in Q1 2012 in accordance with TFG’s investment management agreement and based on a “Reference NAV” of Q4 2011. The hurdle rate for Q2 2012 incentive fee has been reset at 3.1160% (Q1 2012: 3.2304%) as per the process outlined in TFG’s 2011 Audited Financial Statements and in accordance with TFG’s investment management agreement.([[6]](#endnote-6))

* **Investment Portfolio Performance Details:**
* **CLO Portfolio Size:** At the end of Q1 2012 the estimated total fair value of TFG’s CLO equity investment portfolio was approximately $1,160.3 million ($1,044.1 million of U.S. and $116.2 million of European investments), up from $1,147.4 million as of the end of the prior quarter ($1,024.0 million of U.S. and $123.4 million of European investments). TFG’s total indirect exposure to leveraged loans through its CLO equity investments was approximately $18.8 billion as ofthe end of Q1 2012.([[7]](#endnote-7))
* **CLO Portfolio Composition:** 78 transactions as of the end of Q1 2012, up from 77 as of the end of the prior quarter, reflecting the closing of two new issue CLO equity investments and the sale of one position. The number of deals in the portfolio increased to 69 from 68 as of the end of the prior quarter. The number of external CLO managers remained unchanged from Q4 2011, at 27.([[8]](#endnote-8))
  + - **CLO Collateral Performance:** At the end of Q1 2012, approximately 97% of TFG’s CLO investments were passing their junior-most O/C tests, weighted by fair value.([[9]](#endnote-9)) Similarly, 64 or approximately 93% were passing when weighted by the number of deals. Both of the foregoing statistics were unchanged from the end of the prior quarter.

100% of TFG’s U.S. CLOs were passing their junior-most O/C tests (note that U.S. CLOs represented approximately 90.0% of the total fair value of TFG’s CLO equity investment portfolio as of March 31, 2012).([[10]](#endnote-10))([[11]](#endnote-11)) In comparison, the market-wide average of U.S. CLOs estimated to be passing their junior O/C tests as of the end of Q1 2012 was approximately 96.0% (when measured on a percentage of deals basis).([[12]](#endnote-12)) Please refer to *Figure 8* below for a summary of TFG’s investments’ historical junior O/C test performance.



1. The percentage of TFG’s CLOs passing their junior-most O/C tests has been calculated as the ratio of the number of deals passing their junior O/C tests to the total number of CLO deals held by TFG as of the applicable quarter-end date.
2. Gross Cash Receipts from Investments refer to the actual cash receipts collected during each quarter from TFG’s CLO investments. Cash Flows from Operations refer to cash inflows from investments less expenses and net cash settlements on FX and credit hedges.

* **Investment Portfolio Performance Details (continued):**
* **CLO Portfolio Credit Quality:** The weighted-average WARF across all of TFG’s CLO equity investments stood at approximately 2,588 as of the end of Q1 2012. Each of these foregoing statistics represents a weighted-average summary of all of our 69 deals.([[13]](#endnote-13)) Each individual deal’s metrics will differ from these averages and vary across the portfolio.

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| **ALL CLOs** | **Q1 2012** | **Q4 2011** | **Q3 2011** | **Q2 2011** | **Q1 2011** | **Q4 2010** | **Q3 2010** | **Q2 2010** | **Q1 2010** | **Q4 2009** | **Q3 2009** | **Q2 2009** | **Q1 2009** |
| Caa1/CCC+ or Below Obligors: | 6.2% | 7.0% | 7.0% | 7.2% | 7.6% | 8.3% | 9.6% | 10.5% | 11.1% | 12.0% | 12.6% | 11.6% | 11.4% |
| WARF: | 2,588 | 2,624 | 2,614 | 2,642 | 2,664 | 2,671 | 2,658 | 2,706 | 2,762 | 2,809 | 2,813 | 2,800 | 2,758 |

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| **US CLOs** | **Q1 2012** | **Q4 2011** | **Q3 2011** | **Q2 2011** | **Q1 2011** | **Q4 2010** | **Q3 2010** | **Q2 2010** | **Q1 2010** | **Q4 2009** | **Q3 2009** | **Q2 2009** | **Q1 2009** |
| Caa1/CCC+ or Below Obligors: | 4.8% | 5.5% | 5.5% | 5.8% | 6.5% | 6.9% | 7.9% | 8.4% | 9.4% | 12.0% | 12.8% | 11.9% | 12.1% |
| WARF: | 2,504 | 2,533 | 2,522 | 2,542 | 2,591 | 2,622 | 2,610 | 2,648 | 2,719 | 2,799 | 2,824 | 2,831 | 2,810 |

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| **EUR CLOs** | **Q1 2012** | **Q4 2011** | **Q3 2011** | **Q2 2011** | **Q1 2011** | **Q4 2010** | **Q3 2010** | **Q2 2010** | **Q1 2010** | **Q4 2009** | **Q3 2009** | **Q2 2009** | **Q1 2009** |
| Caa1/CCC+ or Below Obligors: | 11.1% | 12.3% | 12.0% | 12.3% | 11.4% | 13.1% | 15.3% | 17.4% | 16.8% | 15.6% | 12.0% | 10.8% | 8.8% |
| WARF: | 2,900 | 2,948 | 2,941 | 2,997 | 2,914 | 2,837 | 2,817 | 2,898 | 2,907 | 2,845 | 2,779 | 2,696 | 2,587 |

* **TFG and Market Default Rates:** TFG’s lagging 12-month corporate loan default rate rose to 0.8% during Q1 2012.([[14]](#endnote-14)) By geography, TFG’s U.S. CLO equity and direct loan investments registered a lagging 12-month default rate of 0.5%, with European CLO equity investments at 2.3%. By comparison, the lagging 12-month U.S. institutional loan default rate rose to 0.21% by principal amount as of March 31, 2012, according to S&P/LCD, up from approximately 0.17% during the prior quarter.([[15]](#endnote-15)) The lagging 12-month default rate for the S&P European Leveraged Loan Index (ELLI) stood 5.3% as of the end of March 31, 2012.([[16]](#endnote-16)) Please refer to *Figure 9* on the following page for a historical summary of TFG’s CLO equity and direct loan investments’ default performance.
* **Investment Portfolio Performance Details (continued):**



(i) Source: TFG as of the outlined quarter-end date. The calculation of TFG’s lagging 12-month corporate loan default rate does not include certain underlying investment collateral that was assigned a “Selective Default” rating by one or more of the applicable rating agencies. Such Selected Defaults are included the S&P/LCD lagging 12-month U.S. institutional loan default rate discussed above. Furthermore, TFG’s CLO equity and direct loan investment portfolio includes approximately 9.1% CLOs with primary exposure to European senior secured loans and such loans are included in the calculation of TFG’s corporate default rate.

(ii) Source: S&P/LCD Quarterly Review as of the outlined quarter-end date.

* **Direct Loan Investments:** As of March 31, 2012, TFG owned liquid U.S. bank loans with an aggregate par amount of approximately $122.2 million and total fair value of $120.3 million. The underlying businesses performed well during the quarter, with the loan portfolio trading up to approximately 99% of par from an average price of 96% of par, and with no defaults registered in the portfolio. For the quarter, there were net realized gains of approximately $0.1 million. In addition, the portfolio earned $1.4 million of interest income and discount premium during the first quarter.
* **Real Estate Investments:** TFG has funded a small portion of its investment capital commitments to GreenOak’s investment projects, totaling approximately $7.5 million from inception through the end of Q1 2012 to finance investments in Japan, the U.S., and Europe.
* **Asset Management Platform Details:**
* **LCM Developments**: LCM’s operating results and financial performance remained strong throughout Q1 2012, with all LCM Cash Flow CLOs that were within their reinvestment periods ([[17]](#endnote-17)) current on their senior and subordinated management fees as of March 31, 2012.Taking into account all LCM-managed vehicles, the gross income for Q1 2012 for LCM totaled $4.4 million. Pre-tax profit for the entire LCM business, of which TFG owns 75%, was approximately $2.0 million as of the same period (2011 quarterly average of $2.1 million). TFG continues to leverage and benefit from the LCM team’s expertise in the ongoing management of the company’s direct loan investment portfolio.

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| **LCM Asset Management Performance Snapshot** | | | | | | | | | |
|  | **Q1 2012** | **Q4 2011** | **Q3 2011** | **Q2 2011** | **Q1 2011** | **Q4 2010** | **Q3 2010** | **Q2 2010** | **Q1 2010** |
| Gross Fee Income ($MM) | $4.4 | $4.3 | $4.4 | $3.9 | $3.8 | $3.4 | $3.0 | $2.9 | $3.3 |
| Pre-tax Income ($MM) | $2.0 | $2.2 | $2.2 | $1.9 | $1.9 | $1.1 | $1.4 | $1.4 | $1.9 |

* **GORE Real Estate Developments:** GreenOak continued to execute on its business growth strategy, including the addition of significant new investment management and advisory engagements. The company had a second closing of its U.S. fund and the first closing of a Japanese fund in Q1 2012. GreenOak also added significant assets under management by winning a mandate to manage a large portfolio of European real estate related securities. Additionally, GreenOak brought on certain investment professionals which previously managed those assets.

GreenOak’s investment team is actively building a pipeline of interesting opportunities in the United States, Japan and Europe, which we expect to continue to materialize over the next several quarters.

We continue to seek to grow and expand our asset management businesses and capabilities as we further our efforts to transition the company to a broadly diversified financial services firm that benefits from diverse income streams. We continue to review potential market opportunities in this regard.

* **Loan and CLO Market Developments:**
* **U.S. leveraged loan defaults pick-up but remain below the historical average:** The U.S. lagged 12-month loan default rate rose to 0.21% by principal amount as of March 31, 2012, up slightly from 0.17% as of Q4 2011.([[18]](#endnote-18)) The early April 2012 default of *Hawker Beechcraft* caused this rate to rise to 0.51% by principal amount, a level which nonetheless remains well-below the historical average.([[19]](#endnote-19))
* **U.S. prepayment rate accelerates, European repayments slow:** During Q1 2012, theU.S. S&P/LSTA Leveraged Loan Index quarterly repayment rate rose to 7.6% from 4.1% during Q4 2011, fueled by re-financing activity.([[20]](#endnote-20)) The S&P European Leveraged Loan Index quarterly repayment rate, on the other hand, declined to €2.9 billion during Q1 2012, down from €7.8 billion in Q4 2011.([[21]](#endnote-21))
* **“Maturity wall” reduction continues:** During Q1 2012, U.S. S&P/LSTA Index issuers repaid or extended approximately $39.0 billion of loan maturities due by the end of 2015, up from $14.4 billion in Q4 2011.([[22]](#endnote-22)) This reduction was dominated by amend-to-extends and high yield bond take-outs.([[23]](#endnote-23))
* **Loan prices rise amid strong market conditions:** U.S. secondary loan prices rose during Q1 2012 resulting in a 3.76% U.S. S&P/LSTA Leveraged Loan Index return.([[24]](#endnote-24)) The S&P European Leveraged Loan Index (“ELLI”) index also gained, returning 4.36% (excluding currency effects), as investor sentiment improved and as low new issuance volumes and repayments led to a pick-up in demand.([[25]](#endnote-25))
* **U.S. loan issuance up on the quarter, European volumes subdued:** Institutional U.S. loan issuance more than doubled to approximately $68.0 billion during Q1 2012, up from $25.5 billion in Q4 2011.([[26]](#endnote-26)) European primary institutional loan issuance also rose modestly quarter-over-quarter, with €3.1 billion of leveraged loans issued in Q1 2012, compared with €2.6 billion in Q4 2012.([[27]](#endnote-27))
* **U.S. CLO O/C ratios improve while European weakness continues:** During Q1 2012, O/C ratios of U.S. CLOs strengthened on average. According to Morgan Stanley, the median junior O/C test cushion for U.S. CLOs increased to 4.09% as of March 31, 2012 ([[28]](#endnote-28)) up from 3.88% as of the end of the prior quarter.([[29]](#endnote-29)) The median junior O/C test cushion for European CLOs, however, decreased to 0.95% as of the end of Q1 2012, ([[30]](#endnote-30)) down from 1.76% as of the end of Q4 2011.([[31]](#endnote-31))
* **CLO debt prices post quarter-on-quarter gains**: Average secondary U.S. CLO debt prices rose across the capital structure at the end of Q1 2012 versus the prior quarter, with particularly significant price gains registered by mezzanine tranches, originally rated A to BB.([[32]](#endnote-32))
* **Primary arbitrage CLO issuance momentum builds:** U.S. arbitrage CLO issuance rose during Q1 2012 as 16 transactions totaling approximately $6.4 billion were priced, up from 10 deals totaling $4.3 billion issued during Q4 2011.([[33]](#endnote-33)) Furthermore, as noted by multiple research desks, the relative steepness of the current new issue U.S. CLO credit curve versus comparable asset classes leaves potential for both further spread tightening and credit curve flattening in new issue CLO spreads, which may be expected to support CLO issuance volumes by enhancing arbitrage levels.
* **U.S. CLO equity distributions remain robust:** U.S. CLO equity tranches saw continued strong distributions, supported by a low default environment, LIBOR floors, and the ability of managers to build excess spread and par via below-par reinvestments, among other factors.
* **Fair Value Determination for TFG’s CLO Equity Investments:**
* In accordance with the TFG’s valuation policies as set forth on the company’s website, the values of TFG’s CLO equity investments are determined using a third-party cash flow modeling tool. The model contains certain assumption inputs that are reviewed and adjusted as appropriate to factor in how historic, current and potential market developments (examined through, for example, forward-looking observable data) might potentially impact the performance of TFG’s CLO equity investments. Since this involves modeling, among other things, forward projections over multiple years, this is not an exercise in recalibrating future assumptions to the latest quarter’s historical data.
* Subject to the foregoing, when determining the U.S. GAAP-compliant fair value of TFG’s portfolio, the company seeks to derive a value at which market participants could transact in an orderly market and also seeks to benchmark the model inputs and resulting outputs to observable market data when available and appropriate. Please refer to the Annual Report for a more detailed description of the cash flow projection and discounting process.
* **Forward-looking CLO Equity Cash Flow Modeling Assumptions Unchanged vs. Q4 2011:**
* The Investment Manager reviews, and adjusts in consultation with TFG’s audit committee, as appropriate, the CLO equity investment portfolio’s modeling assumptions as described above. At the end of Q1 2012, these key assumptions were unchanged from the previous quarter.
* The key average assumption variables have been summarized in the table below. The modeling assumptions disclosed below are a weighted average (by U.S. dollar amount) of the individual deal assumptions, aggregated by geography (i.e., U.S. and European). Each individual deal’s assumptions may differ from this geographical average and vary across the portfolio.

**U.S. CLOs – Unchanged**

|  |  |  |
| --- | --- | --- |
| **Variable** | **Year** | **Current Assumptions** |
| **CADR** | | |
|  | **2012-2013** | 1.0x WARF-implied default rate (2.2%) |
|  | **2014** | 1.5x WARF-implied default rate (3.3%) |
|  | **2015-2016** | 1.5x WARF-implied default rate (3.3%) |
|  | **Thereafter** | 1.0x WARF-implied default rate (2.2%) |
| **Recovery Rate** | | |
|  | **Until deal maturity** | 72% |
| **Prepayment Rate** | | |
|  | **Until deal maturity** | 20.0% p.a. on loans; 0.0% on bonds |
| **Reinvestment Price** | | |
|  | **2012** | 98% |
|  | **Thereafter** | 100% |

* **Forward-looking CLO Equity Cash Flow Modeling Assumptions Unchanged vs. Q4 2011 (continued):**

**European CLOs - Unchanged**

|  |  |  |
| --- | --- | --- |
| **Variable** | **Year** | **Current Assumptions** |
| **CADR** | | |
|  | **2012-2014** | 1.5x WARF-implied default rate (3.1%) |
|  | **Thereafter** | 1.0x WARF-implied default rate (2.1%) |
| **Recovery Rate** | | |
|  | **Until deal maturity** | 68% |
| **Prepayment Rate** | | |
|  | **Until deal maturity** | 20.0% p.a. on loans; 0.0% on bonds |
| **Reinvestment Price** | | |
|  | **Until deal maturity** | 100% |

* **Application of Discount Rate to Projected CLO Equity Cash Flows and ALR:**
* In determining the applicable rates to use to discount projected cash flows, an analysis of observable risk premium data is undertaken. During Q1 2012 certain observable data and research, covering both CLO equity and debt tranches (including originally BB and BBB-rated debt tranches), suggested that risk premia on U.S. CLO equity declined. For example, according to Citibank research, the spread on originally BB-rated tranches declined from approximately 11.5% at the end of 2011 to 10.0% at the end of Q1 2012. We believe that TFG’s discount rates for U.S. CLOs of 20.0% for strong deals, and 25.0% for the others, continued to represent an appropriate spread over mezzanine tranches.
* Per Citibank, European originally BB-rated tranche yields also moved tighter to less than 21.0% from 23.5% at 2011 year-end. Given the ongoing uncertainty surrounding Europe, TFG maintained its discount rate for all European deals at 30.0%.
* As a general rule, where the discount rate being applied to the future cash flows is greater than the IRR on a particular deal, the fair value for that deal will be lower than its amortized cost. The difference between these two figures, on an aggregate basis across the CLO equity portfolio has been characterized as the “ALR Fair Value Adjustment” or “ALR”. Through the process described above, as of the end of Q1 2012, the total ALR stands at $120.7 million, consisting of $16.5 million for U.S. deals and $104.2 million for European deals, as compared to $128.7 million at the end of Q4 2011 ($20.4 million for U.S. deals and $108.3 million for European deals).
* The average carrying value of TFG’s U.S. CLO equity investments, which accounted for approximately 90.0% of the CLO equity investment portfolio by fair value, was approximately $0.77 on the dollar at end of Q1 2012, down from $0.78 on the dollar at the end of Q4 2011.
* **Application of Discount Rate to Projected CLO Equity Cash Flows and ALR (continued):**
* The average carrying value of the European deals fell from €0.44 per Euro as of the end of Q4 2011 to €0.40 per Euro as of the end of Q1 2012. It is important to note, however, that significant dispersion of carrying values exists across transactions within each geographic grouping, particularly in the case of Europe, with a range of carrying values of €0.04 to €0.67 per Euro.
* As discussed in the Annual Report, the applicable discount rate for the new vintage deals (issued after 2010) is determined with reference to each deal’s specific IRR, which, in the absence of other observable data points, is deemed to be the most appropriate indication of the current risk premium on these structures. At the end of Q1 2012, the weighted average discount rate (and IRR) on these deals was 13.2%. Such deals represented approximately 9.4% of the CLO equity portfolio by fair value. We will continue to monitor observable data on these newer vintage transactions to determine whether the IRR remains the appropriate discount rate.
* **Hedging Activity:**

As of March 31, 2012, TFG had no direct credit hedges in place, but employed certain foreign exchange rate and “tail risk” interest rate hedges to seek to mitigate its exposure to Euro-USD foreign exchange risk and a potential significant increase in U.S. inflation and/or nominal interest rates, respectively. We review our hedging strategy on an on-going basis as we seek to address identified risks to the extent practicable and in a cost-effective manner.

* **Further Notice**

Please be advised that the Investment Manager is now registered as an investment adviser under U.S. Investment Advisers Act of 1940.

* **Summary and Outlook:**

Q1 2012 saw TFG post another strong quarter of results with each segment of the business performing well. Although the pace of NAV growth slowed during Q1 2012 compared with the growth seen during 2011, this was not unexpected as some of the conditions which had driven prior performance in the CLO portfolio began to normalize. Strong cash flows from the CLO portfolio also continued to underpin capital distributions to shareholders through the dividend and ongoing share buyback program.

LCM and GreenOak continued to add assets during the quarter. LCM’s assets under management increased to over $3.7 billion whilst GreenOak, the other component of our asset management platform, further strengthened its business and added approximately $1.1 billion in assets under management during Q1 2012.

Going forward, the improved tone of the capital markets as well as continued positive trends in the U.S. leveraged loan and CLO markets, support our constructive view on the performance outlook for our existing U.S. CLO and direct loan portfolios, despite lingering global macroeconomic downside risks. We expect that our European CLO equity portfolio, however, may continue to face headwinds resulting from the region’s poor growth prospects and residual fiscal issues. As stated previously TFG will continue to seek to take steps to diversify its investment portfolio across asset classes, types and geographies.

In addition to providing TFG with attractive new investment opportunities, the positive U.S. loan market may be beneficial for our asset management platform, as LCM seeks to raise fresh third party capital via CLO issuance during the remainder of 2012. So long as the CLO market is conducive to new deals, we believe that LCM may be able to bring to market further transactions, as it seeks to replace deals that are currently amortizing and increase its fee-generating assets under management. The growth of TFG’s asset management platform remains a central goal for us, as we believe that it will strengthen and diversify TFG’s income streams, creating value for the company’s shareholders. We believe that TFG is well-positioned to capitalize on future opportunities in this space and to gain from potential synergies across the investment and asset management businesses.

* **Quarterly Investor Call**

We will host a conference call for investors on May 2, 2012 at 15:00 BST/10:00 EDT to discuss Q1 2012 results and to provide a company update.

The conference call may be accessed by dialing +44 (0)20 7162 0025 and +1 334 323 6201 (a passcode is not required). Participants may also register for the conference call in advance via the following link <https://eventreg1.conferencing.com/webportal3/reg.html?Acc=247751&Conf=183416>.

A replay of the call will be available for 30 days by dialing +44 (0) 20 7031 4064 and +1 954 334 0342, access code 915874 and as an MP3 recording on the TFG website.

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| --- | --- |
| For further information, please contact: |  |
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|  |  |
| --- | --- |
| **Expected Upcoming Events** | **Date** |
| Q1 2012 Ex-Dividend Date | April 26, 2012 |
| Q1 2012 Dividend Record Date | April 30, 2012 |
| Quarterly Investor Call | May 2, 2012 |
| April 2012 Monthly Report | May 21, 2012 (approx) |
| Q1 2012 Dividend Payment Date | May 22, 2012 |



**CLO Equity Portfolio Details**

**As of March 31, 2012**



**CLO Equity Portfolio Details (continued)**

**As of March 31, 2012**



**CLO Equity Portfolio Details (continued)**

**As of March 31, 2012**



**Tetragon Financial Group Limited (TFG)**

**Portfolio Composition**

**Portfolio Held by Tetragon Financial Group Master Fund Limited**

**(unless otherwise stated)**

**As of March 31, 2012**



**An investment in TFG involves substantial risks. Please refer to the Company’s website at** [**www.tetragoninv.com**](http://www.tetragoninv.com) **for a description of the risks and uncertainties pertaining to an investment in TFG.**

This release does not contain or constitute an offer to sell or a solicitation of an offer to purchase securities in the United States or any other jurisdiction.  The securities of TFG have not been and will not be registered under the US Securities Act of 1933 (the "Securities Act"), as amended, and may not be offered or sold in the United States or to US persons unless they are registered under applicable law or exempt from registration.  TFG does not intend to register any portion of its securities in the United States or to conduct a public offer of securities in the United States.  In addition, TFG has not been and will not be registered under the US Investment Company Act of 1940, and investors will not be entitled to the benefits of such Act.  TFG is registered in the public register of the Netherlands Authority for the Financial Markets under Section 1:107 of the Financial Markets Supervision Act ("FMSA") as a collective investment scheme from a designated country. This release constitutes regulated information ("gereglementeerde informatie") within the meaning of Section 1:1 of the FMSA.

**Board of Directors**

Paddy Dear Reade Griffith Byron Knief\*

Rupert Dorey\* David Jeffreys\* Greville Ward\*

***\*Independent Director***

**Shareholder Information**

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Ogier

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Brunswick Group NYSE Euronext in Amsterdam

Andrew Garfield/Gill Ackers/Pip Green

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**Auditors** 1st Floor Dorey Court

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**Sub-Registrar and Transfer Agent**

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One Wall Street

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United States of America

**ENDNOTES**

1. (1) TFG invests substantially all its capital through a master fund, Tetragon Financial Group Master Fund Limited (“TFGMF”), in which it holds 100% of the issued shares. In this report, unless otherwise stated, we report on the consolidated business incorporating TFG and TFGMF. References to “we” are to Tetragon Financial Management LP, TFG’s investment manager. [↑](#endnote-ref-1)
2. () TFG’s Portfolio-wide CLO equity statistics, such as the average default rate or CCC-asset holding levels, are calculated without including TFG’s investments in CLO mezzanine debt tranches. [↑](#endnote-ref-2)
3. () The LCM I, LCM II, LCM III, LCM IV, LCM V, LCM VI, LCM VIII, LCM IX, and LCM X CLOs are referred to as the “LCM Cash Flow CLOs.” The LCM VII CLO was a market value CLO previously managed by LCM, which was liquidated commencing in 2008, and is not included in the mentioned statistics. In addition, these statistics do not include the performance of certain transactions that were developed and previously managed by a third-party prior to being assigned to LCM, some of which continue to be managed by LCM. [↑](#endnote-ref-3)
4. () All of LCM Cash Flow CLOs were current on their senior and subordinated management fees except for LCM I, which is currently significantly beyond its reinvestment period and has experienced significant de-leveraging. [↑](#endnote-ref-4)
5. () The rolling 12-month dividend growth rate is calculated by dividing the sum of the dividends per share distributed or declared over the last 12 months by the dividends per share distributed or declared over the prior 12 months, less one. [↑](#endnote-ref-5)
6. ()The hurdle rate is reset each quarter using 3M USD LIBOR plus a spread of 2.647858% in accordance with TFG’s investment management agreement. Please see the TFG website, [www.tetragoninv.com](http://www.tetragoninv.com), for more details. [↑](#endnote-ref-6)
7. () Includes only look-through loan exposures through TFG’s CLO equity investments. [↑](#endnote-ref-7)
8. () Excludes CDO-squared and ABS CDO transactions which were written off in October 2007. TFG continues to hold the economic rights to three of these written-off transactions. [↑](#endnote-ref-8)
9. () Based on the most recent trustee reports available for both our U.S. and European CLO investments as of March 31, 2012. [↑](#endnote-ref-9)
10. () As of March 31, 2012, European CLOs represented approximately 10.0% of TFG’s CLO equity investment portfolio; approximately 68% of the fair value of TFG’s European CLOs and 50%, when measured as a percentage of the total number of European deals, were passing their junior-most O/C tests. [↑](#endnote-ref-10)
11. () As O/C tests are breached, CLO structures may divert excess interest cash flows away from the equity tranche holders, such as TFG, to pay down the CLO’s debt thereby curing the O/C breach via deleveraging. Accordingly, the affected investments ceased to generate cash flows to TFG or are expected to cease generating cash flows on the next applicable payment date. Once enough debt has been repaid to cure the O/C test breach, distributions of excess interest cash to equity holders may resume to the extent not precluded by the investments’ realized or unrealized losses. [↑](#endnote-ref-11)
12. () Morgan Stanley CLO Market Tracker, April 4, 2012; based on a sample of 473 U.S. CLO transactions. [↑](#endnote-ref-12)
13. () Weighted by the original USD cost of each investment. [↑](#endnote-ref-13)
14. () The calculation of TFG’s lagging 12-month corporate loan default rate does not include certain underlying investment collateral that was assigned a “Selective Default” rating by one or more of the applicable rating agencies. Such Selected Defaults are included the S&P/LCD lagging 12-month U.S. institutional loan default rate discussed above. Furthermore, TFG’s CLO equity and direct loan investment portfolio includes approximately 9.1% CLOs with primary exposure to European senior secured loans and such loans are included in the calculation of TFG’s corporate default rate. [↑](#endnote-ref-14)
15. () S&P/LCD News, “With no loan defaults in March, rate holds near all-time low,” April 2, 2012. [↑](#endnote-ref-15)
16. () S&P/LCD News, “(EUR) S&P ELLI: Default rate rises to 5.3% in March, “April 11, 2012. The ELLI default rate is calculated by defining “default” as (a) an event of default, such as a D public rating, a D credit estimate, a missed interest or principal payment, or a bankruptcy filing; or (b) the beginning stages of formal restructuring, such as the start of negotiations between the company and lenders, or hiring of financial advisors. [↑](#endnote-ref-16)
17. () All of LCM Cash Flow CLOs were current on their senior and subordinated management fees except for LCM I, which is currently significantly beyond its reinvestment period and has experienced significant de-leveraging. [↑](#endnote-ref-17)
18. () S&P/LCD News, “With no loan defaults in March, rate holds near all-time low,” April 2, 2012. [↑](#endnote-ref-18)
19. () S&P/LCD News, “Hawker missed interest payment bumps loan default rate to 0.77% ,” April 2, 2012. Hawker Beechcraft did not make the scheduled interest payment on its secured credit facility when due on March 30, 2012 and was downgraded to D from CC by S&P on April 2, 2012. [↑](#endnote-ref-19)
20. () S&P/LSTA Leveraged Lending Review 4Q 2011. [↑](#endnote-ref-20)
21. () S&P/LCD News, “(EUR) S&P ELLI steams ahead in 1Q12,” April 10, 2012. [↑](#endnote-ref-21)
22. () S&P/LCD Quarterly Review, First Quarter 2012. [↑](#endnote-ref-22)
23. () S&P/LCD Quarterly Review, First Quarter 2012. [↑](#endnote-ref-23)
24. () S&P/LCD News, “Leveraged loans return 0.77% in March; YTD return is 3.76%,” April 2, 2012. [↑](#endnote-ref-24)
25. () S&P/LCD News, “(EUR) S&P ELLI steams ahead in 1Q12,” April 10, 2012. [↑](#endnote-ref-25)
26. () S&P/LCD Quarterly Review, First Quarter 2012. [↑](#endnote-ref-26)
27. () S&P/LCD Quarterly Review, First Quarter 2012. [↑](#endnote-ref-27)
28. () Morgan Stanley CLO Market Tracker, April 4, 2012; based on a sample of 473 U.S. CLO transactions. [↑](#endnote-ref-28)
29. () Morgan Stanley CLO Market Tracker, January 9, 2012; based on a sample of 461 U.S. CLO transactions. [↑](#endnote-ref-29)
30. () Morgan Stanley CLO Market Tracker, April 4, 2012; based on a sample of 195 European CLO transactions. [↑](#endnote-ref-30)
31. () Morgan Stanley CLO Market Tracker, January 9, 2012; based on a sample of 195 European CLO transactions. [↑](#endnote-ref-31)
32. () Morgan Stanley CLO Market Tracker, April 4, 2012. [↑](#endnote-ref-32)
33. (30) Morgan Stanley CLO Market Tracker, April 4, 2012. [↑](#endnote-ref-33)