BOUSSARD & GAVAUDAN HOLDING LIMITED

# NOVEMBER 2011 NEWSLETTER

## I. COMPANY INFORMATION

| General information | |
|---|---|
| Investment manager | Boussard & Gavaudan Asset Management, L.P. |
| Company domicile | Guernsey |
| Website | www.bgholdingltd.com |
| Management fee | 1.5% p.a. |
| Performance fee | 20% with HWM |

| | SEDOL | ISIN | Reuters | Bloomberg |
|---|---|---|---|---|
| EUR Euronext | B1FQG45 | GG00B1FQG453 | BGHL.AS | BGHL NA |
| EUR LSE | B28ZZQ1 | GG00B1FQG453 | BGHL.L | BGHL LN |
| GBX LSE | B39VMM0 | GG00B39VMM07 | BGHS.L | BGHS LN |
| GBX Euronext | B39VMM1 | GG00B39VMM07 | BGHS.AS | BGHS NA |

## II. OVERVIEW

Boussard & Gavaudan Holding Limited ("BGHL") is a Guernsey closed-ended investment company and is registered with the Dutch Authority for the Financial Markets as a collective investment scheme under article 1:107 of the Dutch Financial Markets Supervision Act. BGHL invests its assets in order to provide exposure to multiple alternative investment strategies managed by the Investment Manager. The investment objective is to seek to produce long-term appreciation of its assets. BGHL seeks to achieve this by investing in BG Fund Plc ("BG Fund"). In addition, a proportion of the net assets of BGHL may, at the discretion of the Investment Manager, be invested in other hedge funds and/or other financial assets selected by the Investment Manager. BGHL aims to generate a target annualised return in excess of 10% (net of all fees).

## III. Share information

| Net Asset Value (NAV) | Euro share | Sterling share |
|---|---|---|
| Estimated NAV* | €13.5091 | £12.2973 |
| Estimated month to date return* | -3.82% | -4.35% |
| Estimated year to date return* | -2.10% | -4.46% |
| Estimated inception to date return* | 35.09% | 22.97% |

| Euro share | Amsterdam (AEX) | London (LSE) |
|---|---|---|
| Market close | €11.14 | - |
| Premium / discount to estimated NAV | -17.54% | - |

| Sterling share | Amsterdam (AEX) | London (LSE) |
|---|---|---|
| Market close | - | GBX 1,017.00 |
| Premium / discount to estimated NAV | - | -17.30% |

In the context of the current discount to NAV, the Company continues to purchase some of its own shares into treasury.

| | Euro share | Sterling share |
|---|---|---|
| Shares issued | 41,817,687 | 1,932,543 |
| Shares held in treasury | 2,245,646 | - |
| Shares outstanding | **39,572,041** | **1,932,543** |

| | BGHL |
|---|---|
| Total value of the investments of BGHL based on the estimated NAV for the shares outstanding | € 562 million |
| Market capitalisation of BGHL based on the share price for the shares outstanding<br>*Amsterdam (AEX) market close for the Euro Share and London (LSE) market close for the Sterling share* | € 464 million |

* Estimated figures

## IV. BGHL COMPOSITION

The proceeds have been invested in the BG Fund (net of a certain amount retained by BGHL for working capital requirements and other requirements).

In addition to having substantially 100% of its assets under management invested in the BG Fund, BGHL has three investments in private equity companies.

### A. BG FUND PLC

European equity markets fell this month with the Eurostoxx 50® down 2.3%. Volatilities on stock markets slightly increased: the VDAX index moved to 31% from 30.1% and the VStoxx® Index to 37.1% from 35.1%. Credit spreads widened with the iTraxx Crossover index at 758bps (+99bps of widening).

## Volatility strategies

***Convertible bond arbitrage***

Convertible bonds (excl. mandatories) account for half of the fund's total loss this month, with a negative contribution of -231bps*.

The strategy suffered from a sharp reversal in the trading of the Fortis CASHES, which fell back to the levels of last September. The bonds lost almost 20% over the month, again in very low volumes, dragged down by the continuing stress in the tier 1 space and in spite of the positive impact of Liability Management Exercises (LMEs) by several European banks (including amongst others BNP Paribas, Société Générale, BPCE, BES, Santander, Lloyds TSB, and SNS Bank), seeking to take advantage of current low trading levels to tender or exchange subordinated instruments at a discount to par. Those transactions are opportunistic add-on tools within the overall capital management plans European banks are putting in place to reinforce their capital ratios to reach the EBA capital target set at 9% core tier 1 ratio by June 2012, while optimising their hybrid stocks ahead of the implementation of the Basel 3 grandfathering rules. LMEs realised at a discount to par allow banks to create a capital gain and increase their core tier 1 ratio, while avoiding in some situations dilutive transactions such as rights issues or excess deleveraging. For example, Société Générale created 11bps (pro-forma 30 September 2011) by launching a cash tender on tier 1 hybrid notes issued to institutional investors. It is worth noting that trading levels reached their bottom in 2009 ahead of a similar wave of LMEs. Although terms of current LMEs are overall less generous for bondholders than in 2009, they are still carried out at (slight) premia to secondary levels and have sustained trading levels as well as marginally increased liquidity on the asset class. We expect this trend to continue in the coming weeks / months. We believe the Fortis CASHES did not benefit from this rising trend of LMEs as the bonds are not expected to be called or tendered in the short term:

- the regulatory treatment and market price at a steep discount create an attractive opportunity for BNP to restructure the bond to increase the capital treatment and generate a sizeable capital gain;
- also the Alternative Coupon Satisfaction Mechanism (ACSM) and the Relative Performance Note (RPN) create an uncomfortable link for BNP Paribas and Ageas between one of their capital instruments and a third party (Ageas);
- with the ACSM, the Fortis CASHES are not Basel 3 compliant – they will, however, be included in the Basel 3 grandfathering as of 1 January 2013, albeit for 'only' €0.6bn out of a €3bn issue;
- however, given the current state of the term funding market and the level of BNP Paribas' senior CDS spread (c. 240bps currently), the Fortis CASHES provide 'cheap' perpetual senior funding for BNP (200bps);
- therefore BNP has an incentive to keep the Fortis CASHES outstanding until 1 January 2013 – at that time a 'resolution' of the Fortis CASHES situation would preserve BNP's grandfathering envelope (despite the Fortis CASHES leaving the grandfathering), leaving some additional room to keep non-step tier 1 for a longer period of time.

Still, the Fortis CASHES actually significantly underperformed the BNP 8.667% Perp (a tier 1 instrument perceived as non-callable), which was down 'only' c. 10% this month. We traded around our position to try to take advantage of those sharp moves, although in limited amounts due to the wide bid-offers and the illiquidity of this bond.

The rest of the losses came for the most part from our position in the Alcatel 5% 2015 convertible bond. We had increased this position as a high delta convertible in the first quarter of 2011, but did not hedge the credit as we felt being long the latter was a good risk reward but also because the stock price was close to the issuer call level. Whilst we had already decided to keep a significant static delta at the end of October (i.e. no longer hedging the gamma on the downside) to protect the position, we were hit by the market reaction to the Q3 results when Alcatel warned on their margins, cut its profit forecast for 2011 and released a €1bn negative cash flow for the first 9 months of the year.

* Estimated figures

The shares tumbled the most in almost a decade, and the 5-year CDS widened from around 1,000bps before the release to more than 1,600 bps at the end of November. The convertible exacerbated these movements, trading to levels as low as implying a Z-spread of 1,650bps (with a zero equity volatility input), much wider than Alcatel's straight bonds (e.g. Z + 1,230bps for ALU 8.50% 2016). We expect the CB to recover over the coming months as Alcatel cashes in the proceeds of the sale of Genesys in the US (US$ 1.5bn) and reduces its working capital requirements in Q4. In the coming months we believe Alcatel will have to raise external resources to match their maturing liabilities and will probably have to tap their shareholders or issue a mandatory, as current spreads prevent them from issuing more debt.

Based on the outright CB funds we track from public sources, fund flows in Europe were in line with previous months with redemptions of around €1.0bn. We understand those funds were long abnormally high levels of cash, which helped them withstand the outflows without any significant forced selling. The (still moderate) selling pressure we actually witnessed on European convertibles was primarily driven by brokers reducing their inventories in a 'risk off' context, and was mostly perceptible in illiquid / mid cap names.

There was no new convertible bond issue this month, apart from a JPY 200bn (c. US$ 2.67bn) issue from KDDI, a leading Japanese mobile communication services provider. The zero coupon bonds due 2015 were sold to European investors and in the US under Reg S. They priced in the middle of the 5-15% conversion premium range, leaving very little upside to investors.

***Mandatory convertible bond arbitrage***

Mandatories contributed -13bps* this month. In the stressed and illiquid environment that we witnessed across the board in November, the UBS/BBVA mandatory exchangeable, our largest position, held up remarkably well, evidencing a stable and well-anchored investor base, which, we believe, is totally comfortable holding the paper until maturity (due July 2012). At current BBVA share price, the mandatory exchangeable bonds have very little convexity and actually behave like a pure forward. As the bonds are firmly held, they currently trade slightly higher than our target in terms of excess equity return; and any significant offer by bondholders willing to exit/reduce may represent a good opportunity to increase this low risk position.

The two positions we marked down this month (and which are expected to regain all lost ground as they come to maturity, both in the second half of next year) are smaller in size and suffered from a more shaky investor base and a lack of interest from our peers due to their nature (one financial and one Italian corporate). We remain convinced of the value and risk profile of those two positions and increased them (only marginally due to the clear lack of liquidity) this month.

There was no new mandatory convertible bond issue in Europe this month, despite market talks that mandatories (with an acceleration trigger) might be included in the EBA 9% core capital ratio, although not governed by the (tier 1 host) CoCo termsheet prepared with the national regulators.

***Gamma trading***

Gamma trading contributed a total of 6bps* to the performance of the fund in November. The month was quite mixed on the volatility side, the spot being driven by the macroeconomic newsflow. High correlation led us again to favour gamma exposure on the liquid Eurostoxx 50 options.

The month started on a volatile note in spite of the positive rally following the EU summit announcement the week before. The Greek Prime Minister threatened the Eurozone with a referendum on the last minute bailout deal struck only a few days before. These uncertainties created a lot of confusion which made our long gamma exposure profitable. Unfortunately this high volatility regime was very short-lived, and stopped after Mr Papandreou's resignation. The market focus quickly shifted to Italy as the BTP curve traded above 6% from 5-years onwards, leading to the resignation of Berlusconi.

What could have been hailed as market-friendly news sent the market drifting lower every day. Volatilities remained under pressure, especially in the Eurostoxx 50, which made our long gamma position more difficult to carry. This slow decline denied the high implicit volatility and skew levels. New monthly lows were seen during Thanksgiving week, with low volumes and decreasing volatilities. We managed to take advantage of these relatively cheap levels to raise our gamma exposure for the upcoming European meetings. The last days of the month saw equity markets stage an impressive rally with a high close-to-close volatility which offset our small losses of the former weeks.

In the current environment, we remain vigilant with long gamma exposure and are continuously monitoring the situation.

* Estimated figures

## Equity strategies

As described above, November was an eventful month with stress coming from Greece and Italy. These events finally led to government changes in both countries but did not give any relief to the market which kept falling. However, towards the end of the month, talks between Germany and France over the European stability pact renegotiation and the coordinated action by 6 central banks lifted the market which finally ended November at -2%. In this context, the month started with derisking across the board followed by a squeeze mostly driven by short covering on indices and financials towards the end of November. Each time the market bounced back this month, some placements occurred, in particular from private equity companies, which took these windows of opportunity to sell their stake in the market (Legrand, Hugo Boss, Christian Hansen). We participated in a very selective fashion. Apart from that, corporate activity remains quiet overall; the market is waiting for a solution for the banking sector as well as some capital increases in the coming weeks or months.

Equity strategies did not perform well in November (-94bps*) as a few idiosyncratic positions (GFI Informatique, Camaïeu, Kesa Electricals) lagged massively behind their hedges on the way up. We firmly believe that these positions offer value in the short to mid term. In this environment, we did not increase the fund's equity exposure as we continue to prefer credit as an asset class. We are indeed skeptical today on the equity side as, on the one hand, corporate fundamentals seem to be valued at attractive levels but, on the other hand, we wonder if the market has sufficiently priced in all the components of the macro (European uncertainties on GDPs, the slowdown in emerging countries, doubts about US macro which has so far remained resilient), especially when compared to the massive underperformance of the credit.

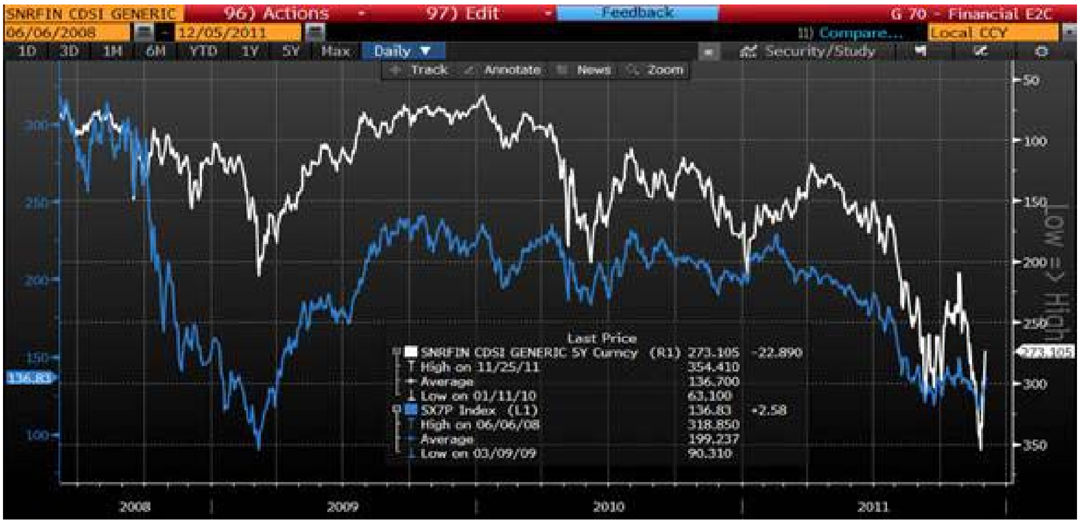
## Credit strategies

Credit strategies cost the fund 121bps* in November. The iTraxx Crossover widened from 659bps to 758bps in November, and even traded as wide as 850bps. Returns for cash credit indices were negative across the board led by higher-beta sectors. EUR high yield and fin sub indices were down -9% and -4.8% respectively for the month, bringing the YTD returns to -12.7% and -5.5%. Interestingly, USD high yield was down -1.9% in November but still up 2.5% for the year. European credit was once again driven by the weakness in the financial sector (the iTraxx Sen Fin widened 73bps to 300bps).

The political issues in Greece and Italy created collateral damage and the month not only saw Italian BTP 10-year yields clear through the 7% danger territory, but also saw French OATs gap rapidly against German Bunds to wides of 190bps on 15 November. The political uncertainty and financial volatility have depressed business and household confidence. Financial distress within the Euro area has been sustained long enough to impact growth prospects for 2012. The sharp outflows of liquidity from troubled countries have manifested themselves in many ways, most notably through wider government bond spreads. However, for the real economy the main pressure has come through the banking sector: there has been a sharp rise in banks' marginal funding costs, in turn leading to tighter lending standards. On the other side of the Atlantic, the failure to reach a deal by the super budget committee was the main event but US equities outperformed as the data flow continued to surprise on the upside.

As a result, European credit and equities continued to move in line in November. Both have performed poorly since June this year. In fact, correlation between equity and credit spreads is as negative as it has been since 2005 (now at -85%). Credit spreads, though, are back to 2008 levels, which is not the case for equities. Indeed, since January 2011, investment grade spreads have increased by ~130%, while equities have fallen ~20%. Most of this stems from the troubles impacting the financial sector; while senior financial CDS have gone through 2008 levels, financial equities are still above their trough levels at that time (cf. graph). With the increasing risk of sovereign default in Europe, banks holding government bonds on their balance sheets have come under pressure from credit markets, and their spreads have been closely linked to sovereign CDS.

* Estimated figures




Conversely, non-financial companies are generally in a better position with regard to fundamentals than they were in 2008, and will be able to address the forthcoming economic downturn in a better fashion. Indeed, with a cash-to asset ratio of ~10%, European corporates enjoy cash holdings that are close to levels seen in the mid-1990s. Over the past 3 years, banks have drastically reduced lending, leaving companies with no choice but to cut capex, and reduce their working capital to preserve cash. Leverage ratios have hence significantly improved according to Datastream, from 2.35x in 2008 to 1.5x currently. In Europe, net debt to equity has fallen from 77% in Jan 2009 to 68%. We understand that the most financially levered part of Europe could see their credit spreads underperform the overall non-financial corporate market further, should the credit squeeze in Europe get deeper. Nevertheless, as discussed in previous newsletters, we continue to think that the valuation of the Crossover index offers a very interesting risk-reward profile, with credit arguably pricing a more severe economic outcome than equities.

We will look to increase our exposure to non-financial credit on any significant spread widening, as we are convinced the EU will find a solution that solves immediate systemic risks. Indeed, it is our understanding that once the crisis started encompassing Italy, we were close to some kind of end game.

| | SX5E | X-Over | Bond equivalent |
|---|---|---|---|
| **1-Aug-11** | **2,670** | **438** | 102.57 |
| **30-Nov-11** | **2,330** | **759** | 90.62 |
| Delta (pts) | -340 | 321 | -11.95 |
| *Delta (%)* | *-12.7%* | *N/a* | *-11.7%* |

Bond equivalent = Snr Bond maturing 20/12/2016, paying 5% coupon

*Delta(X-Over) = -Beta x Delta(SX5E)*

| **Period** | **Oct. 05 to date** | **Jan. 11 to date** |
|---|---|---|
| Beta | -0.240 | -0.470 |
| Source **Bloomberg** | | |
| Delta(SX5E) | -340 | -340 |
| Implied Delta(X-Over) | 82 | 160 |
| **Implied X-Over as of 25/10** | **520** | **598** |
| Delta(X-Over) | 321 | 321 |
| Implied Delta(SX5E) | -1,338 | -683 |
| **Implied SX5E as of 25/10** | **1,333** | **1,987** |

## Trading

Trading contributed a positive 14bps* to the performance of the fund this month.

* Estimated figures

### B. Private Equity Investments

On top of its investment in BG Fund, BGHL has entered into three private equity investments. These investments, which represent approximately 5% of the net asset value of BGHL, were marked at cost.

#### Rasaland

BGHL entered into Rasaland in June 2008 for $10 million. Rasaland is a Maltese company structured as a private equity fund in terms of fees and organisation, which is dedicated to investing in land, land development and high-end resort developments in Mexico. The EUR/USD exposure is hedged by an FX forward which is rolled on a 3 month basis.

#### DSO Interactive

On 9 December 2009 and 19 February 2010, BGHL acquired a minority stake in DSO Interactive for a total consideration of €1.7 million (6.2% of the share capital and 5.3% on a fully diluted basis). DSO Interactive is a private company incorporated in France and headquartered in Paris, where it employs over 120 people. DSO Interactive provides bad debt collection services to consumer creditors such as telecom operators, banks and specialised credit institutions.

#### Compagnie des Minquiers

On 3 March 2011, Compagnie des Minquiers SAS, a 83.3%-owned subsidiary of BGHL (held jointly with the executive committee members of the Cofigeo group) acquired 100% of the shares of MPF (renamed Financière des Minquiers), a holding company, holding 26,523 shares in Cofigeo negotiated on the regulated market NYSE Euronext in Paris representing approximately 36% of capital and 41% of voting rights. On 29 March 2011, in compliance with French securities law, Compagnie des Minquers filed a mandatory tender offer for all the remaining shares of Cofigeo at a price of €530. On 20 June 2011, following the completion of the “offre publique de retrait” on Cofigeo, Compagnie des Minquiers SAS announced that it held 100% of the capital of Cofigeo.

With sales of 138 million and approximately 650 employees, Cofigeo is a leading player in France in the canned food industry. The group sells prepared meals and sauces under the brands Zapetti (formerly Buitoni) and Raynal & Roquelaure as well as under private labels. It ranks #2 in France with a market share of approximately 25%. BGHL’s total investment in the transaction amounts to approximately €18 million.

## V. Boussard & Gavaudan Asset Management update

### A. Transaction in the Company’s securities

Please note that transactions in the Company's securities that have been performed by officers, directors and persons referred to in the section 5:60 of the Financial Supervision Act ("Wft") are reported:
• directly on the AFM website: www.afm.nl (public database > notification > insider-transactions 5:60 wft);
• on the Company’s website through a link to the AFM notification: www.bgholdingltd.com (Investment Manager > Regulatory information).

Transactions in the Company’s own securities are also reported on:
• the AFM website: www.afm.nl (public database > notification > price-sensitive press releases);
• the Company’s website: www.bgholdingltd.com (Investor Relations > Financial announcements).

### B. BG Fund’s AUM

As of 1 December 2011, assets under management are at €1.24bn.

### C. Additional information

We would like to confirm to our investors that BG Fund Plc has no exposure to MF Global.

## D. Result of the annual conversion

BGHL announced on 24 November 2011 the result of the facility to convert existing holdings (the "Conversion") of Euro shares in the Company ("Euro Shares") into Sterling shares in the Company (the "Sterling Shares") and, of Sterling Shares into Euro Shares in the Company for the 30 November 2011 conversion calculation date (the "November Conversion Calculation Date").

Conversion

The aggregate number of Shares for which conversion request forms were received for the November Conversion Calculation Date was:

2,157 Euro shares
437,821 Sterling shares

The Company intends to announce the conversion ratio when it becomes available following the publication of the final net asset value of the Euro and Sterling Shares referable to the November Conversion Calculation Date.

Anticipated timetable for Conversion

Completion of the Conversion is expected to take place on the following indicative timetable:

| | |
|---|---|
| Announcement of conversion ratio | Around 28 December 2011 |
| Conversion | Around 30 December 2011 |

Sincerely,

E. Boussard & E. Gavaudan

**Investment manager**

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| Annex 1: BG Fund - Greeks | | |
|---|---|---|
| Delta | 2.5% | 2.5 bps P&L variation for market +1% |
| Gamma | 1.9% | delta variation for market +1% |
| Vega | 11.2 bps | by vol point |
| Vega with maturity weight (1/sqrt(T)) | 10.0 bps | by vol point |
| Theta | -2.6 bps | by day |
| Optional theta (-10%) | -3.7 bps | by day for market -10% |
| Rho | 0.2 bps | for 1 bp of interest rates increasing |
| Credit sensitivity | -12.4 bps | for 1% of credit spreads widening (in relative) |

| Annex 2: BG Fund - Performance attribution * | |
|---|---|
| **Volatility strategies** | **-238 bps** |
| Mandatory convertible bond arbitrage | -13 bps |
| Convertible bond arbitrage (incl. credit convertible bonds) | -231 bps |
| Gamma trading | 6 bps |
| Warrant arbitrage | 0 bps |
| **Equity strategies** | **-94 bps** |
| Risk arbitrage / Special situations | -12 bps |
| Long / short trading with short-term catalyst & Value | -82 bps |
| **Credit strategies** | **-121 bps** |
| Credit long / short | -109 bps |
| Capital structure arbitrage | -12 bps |
| **Trading** | **14 bps** |
| | |
| **TOTAL** | **-439 bps** |

| Annex 3: BG Fund - Equity at risk | |
|---|---|
| **Volatility strategies** | **18.9%** |
| Mandatory convertible bond arbitrage | 3.3% |
| Convertible bond arbitrage | 11.2% |
| Gamma trading | 4.4% |
| Warrant arbitrage | 0.0% |
| **Equity strategies** | **18.8%** |
| Risk arbitrage / Special situations | 1.7% |
| Long / short trading with short-term catalyst & Value | 17.1% |
| **Credit strategies** | **12.9%** |
| Credit long / short (incl. credit convertible bonds) | 8.2% |
| Capital structure arbitrage | 0.6% |
| Restructurings | 4.1% |
| **Trading** | **2.2%** |
| | |
| **TOTAL** | **52.8%** |

* Estimated figures

## Annex 4: BG Fund - Gross exposure in M€

| | | |
|---|---|---|
| **Volatility strategies** | | |
| Mandatory convertible bond arbitrage | Long | 258 |
| | Short equity | 234 |
| | Short credit | 135 |
| Convertible bond arbitrage | Long | 338 |
| | Short equity | 141 |
| | Short credit | 35 |
| Gamma trading | Long | 223 |
| | Short | 223 |
| Warrant arbitrage | Long | 1 |
| | Short | 1 |
| **Equity strategies and Trading** | | |
| Equity strategies and Trading | Long | 500 |
| | Short | 344 |
| **Credit strategies** | | |
| Credit long / short (incl. credit convertible bonds) and Capital structure arbitrage | Long | 390 |
| | Short | 101 |
| **Restructurings** | | |
| Restructurings | Long | 95 |
| | Short | - |
| **GROSS EXPOSURE** | | **3,019** |

| | **Long** | **Short** |
|---|---|---|
| Mandatory convertible bond arbitrage and Convertible bond arbitrage | ∑ market value long | Abs(∑[delta equity + options]) + ∑ notional long for CDS |
| Gamma trading | ∑ Abs (delta equity) | ∑ Abs (delta equity) |
| Warrant arbitrage | ∑ delta long | ∑ Abs(delta short) |
| Equity strategies and Trading | ∑ delta long | ∑ Abs(delta short) |
| Credit strategies | ∑ market value long + ∑ Abs (notional short for CDS) | ∑ Abs(market value short) + ∑ notional long for CDS |

## Annex 5: Investment manager's track record - Historical returns summary (net of fees)

### Euro A share class

| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD | ITD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Sark Fund | | | | | | | |
| 2003 | - | - | 0.75% | 0.76% | 0.82% | 1.04% | 0.93% | 1.06% | 1.18% | 1.55% | 1.05% | 0.17% | 9.69% | **9.69%** |
| 2004 | 1.07% | -0.12% | 1.03% | 0.22% | 0.14% | -0.29% | -0.42% | -0.42% | -0.19% | -0.49% | 1.18% | 1.07% | 2.81% | **12.77%** |
| 2005 | 1.70% | 1.06% | 1.09% | -0.69% | 0.27% | 1.27% | 1.16% | 0.50% | 1.00% | -0.44% | 0.71% | 0.77% | 8.70% | **22.58%** |
| 2006 | -0.18% | 1.56% | 1.64% | 0.86% | -0.47% | 1.35% | 0.40% | 1.56% | 2.73% | 2.90% | 2.34% | 2.91% | 18.99% | **45.85%** |
| 2007 | 3.14% | 1.46% | 4.67% | 0.74% | 1.39% | -2.24% | 0.87% | -2.20% | -0.31% | 1.83% | -2.15% | -1.24% | 5.85% | **54.38%** |
| 2008 | -2.08% | -0.01% | -2.35% | 1.10% | 1.13% | -2.33% | -1.39% | 0.21% | -10.93% | -0.44% | -2.86% | 0.18% | -18.58% | **25.69%** |
| 2009 | 1.92% | -0.28% | 0.90% | 4.88% | 4.10% | 0.73% | 1.99% | 3.21% | 3.48% | 1.13% | 0.22% | 0.48% | 25.13% | **57.27%** |
| | | | | | | | | | | | Sark Fund & BG Fund combined | | | |
| 2010 | 1.26% | 0.37% | 1.60% | 0.74% | -1.49% | 0.74% | 2.01% | -0.34% | 0.62% | 2.02% | -0.14% | 1.85% | 9.56% | **72.31%** |
| 2011 | 0.65% | 0.38% | 1.94% | -0.09% | -0.07% | -1.27% | -0.95% | -0.24% | -2.86% | 2.47% | -4.39%* | | -4.51%* | **64.54*** |

### US Dollar A share class

| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD | ITD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Sark Fund | | | | | | | |
| 2003 | - | - | 0.67% | 0.70% | 0.77% | 0.94% | 0.84% | 0.97% | 1.15% | 1.46% | 1.01% | 0.15% | 9.00% | **9.00%** |
| 2004 | 1.00% | -0.17% | 0.96% | 0.13% | 0.07% | -0.35% | -0.47% | -0.47% | -0.24% | -0.59% | 1.16% | 1.06% | 2.08% | **11.27%** |
| 2005 | 1.66% | 1.08% | 1.09% | -0.64% | 0.31% | 1.30% | 1.22% | 0.62% | 1.06% | -0.32% | 0.81% | 0.89% | 9.45% | **21.79%** |
| 2006 | -0.01% | 1.64% | 1.78% | 1.08% | -0.29% | 1.49% | 0.56% | 1.74% | 2.83% | 3.06% | 2.64% | 3.01% | 21.29% | **47.72%** |
| 2007 | 3.19% | 1.58% | 4.82% | 0.89% | 1.45% | -2.15% | 0.97% | -2.12% | -0.22% | 1.92% | -2.13% | -1.17% | 6.97% | **58.02%** |
| 2008 | -2.12% | -0.07% | -2.57% | 1.02% | 0.98% | -2.52% | -1.50% | 0.21% | -10.63% | 0.16% | -2.97% | 0.22% | -18.56% | **28.69%** |
| 2009 | 1.71% | -0.31% | 0.84% | 4.87% | 4.29% | 0.72% | 2.01% | 3.26% | 3.48% | 1.11% | 0.21% | 0.46% | 24.96% | **60.81%** |
| | | | | | | | | | | | Sark Fund & BG Fund combined | | | |
| 2010 | 1.24% | 0.36% | 1.58% | 0.73% | -1.41% | 0.77% | 2.16% | -0.33% | 0.67% | 2.05% | -0.15% | 1.88% | 9.92% | **76.77%** |
| 2011 | 0.65% | 0.35% | 1.93% | -0.15% | -0.12% | -1.35% | -1.00% | -0.30% | -2.72% | 2.56% | -4.30%* | | -4.55%* | **68.73%*** |

* Estimated figures

## Annex 6: BG Fund - Macroeconomic risks through stress tests

### General stress tests

| | Scenario | Description | Impact % of NAV |
|---|---|---|---|
| 1 | Delta - spot up | Spot : 10% ; Credit : 0% ; Vol : 0% ; Rates : 0% | 0.90% |
| 2 | Delta - spot down | Spot : -10% ; Credit : 0% ; Vol : 0% ; Rates : 0% | 0.56% |
| 3 | Vega - vol up | Spot : 0% ; Credit : 0% ; Vol : 10% ; Rates : 0% | 0.28% |
| 4 | Vega - vol down | Spot : 0% ; Credit : 0% ; Vol : -10% ; Rates : 0% | -0.37% |
| 5 | Credit spread widen | Spot : 0% ; Credit : 25% ; Vol : 0% ; Rates : 0% | -2.81% |
| 6 | Credit spread tighten | Spot : 0% ; Credit : -25% ; Vol : 0% ; Rates : 0% | 2.77% |
| 7 | Market crash 0.5 | Spot : -5% ; Credit : 25% ; Vol : 15% ; Rates : 0% | -2.12% |
| 8 | Market crash 1 | Spot : -10% ; Credit : 50% ; Vol : 30% ; Rates : 0% | -3.29% |
| 9 | Market crash 2 | Spot : -20% ; Credit : 75% ; Vol : 50% ; Rates : 0% | -2.45% |
| 10 | Market crash 3 | Spot : -30% ; Credit : 100% ; Vol : 70% ; Rates : 0% | -0.74% |
| 11 | Market crash, rates down 1 | Spot : -10% ; Credit : 50% ; Vol : 30% ; Rates : -12.5% | -3.30% |
| 12 | Market crash, rates down 2 | Spot : -20% ; Credit : 75% ; Vol : 50% ; Rates : -12.5% | -2.46% |
| 13 | Market crash, rates down 3 | Spot : -30% ; Credit : 100% ; Vol : 70% ; Rates : -12.5% | -0.75% |
| 14 | Market crash, rates up 1 | Spot : -10% ; Credit : 50% ; Vol : 30% ; Rates : 12.5% | -3.28% |
| 15 | Market crash, rates up 2 | Spot : -20% ; Credit : 75% ; Vol : 50% ; Rates : 12.5% | -2.44% |
| 16 | Market crash, rates up 3 | Spot : -30% ; Credit : 100% ; Vol : 70% ; Rates : 12.5% | -0.73% |
| 17 | Equity Credit decorrelation 1 | Spot : 5% ; Credit : 25% ; Vol : 0% ; Rates : 0% | -2.40% |
| 18 | Equity Credit decorrelation 2 | Spot : 5% ; Credit : 25% ; Vol : 10% ; Rates : 0% | -2.04% |
| 19 | Equity Credit decorrelation 3 | Spot : 5% ; Credit : 25% ; Vol : -10% ; Rates : 0% | -2.73% |
| 20 | Equity Credit decorrelation 4 | Spot : -5% ; Credit : -25% ; Vol : 10% ; Rates : 0% | 3.19% |
| 21 | Equity Credit decorrelation 5 | Spot : -5% ; Credit : -25% ; Vol : -10% ; Rates : 0% | 2.57% |
| 22 | Equity Credit decorrelation 6 | Spot : 0% ; Credit : 25% ; Vol : 10% ; Rates : 0% | -2.42% |
| 23 | Equity Credit decorrelation 7 | Spot : 0% ; Credit : 25% ; Vol : -10% ; Rates : 0% | -3.18% |
| 24 | Market rally 1 | Spot : 5% ; Credit : -25% ; Vol : -10% ; Rates : 0% | 2.82% |
| 25 | Market rally 2 | Spot : 5% ; Credit : -25% ; Vol : 0% ; Rates : 0% | 3.08% |
| 26 | Market rally 3 | Spot : 5% ; Credit : -25% ; Vol : 10% ; Rates : 0% | 3.36% |
| 27 | Market rally 4 | Spot : 10% ; Credit : -25% ; Vol : -10% ; Rates : 0% | 3.45% |
| 28 | Market rally 5 | Spot : 10% ; Credit : -25% ; Vol : 0% ; Rates : 0% | 3.68% |
| 29 | Market rally 6 | Spot : 10% ; Credit : -25% ; Vol : 10% ; Rates : 0% | 3.93% |
| 30 | Market rally, Inflation 1 | Spot : 5% ; Credit : -25% ; Vol : -10% ; Rates : 12.5% | 2.79% |
| 31 | Market rally, Inflation 2 | Spot : 5% ; Credit : -25% ; Vol : 0% ; Rates : 12.5% | 3.05% |
| 32 | Market rally, Inflation 3 | Spot : 5% ; Credit : -25% ; Vol : 10% ; Rates : 12.5% | 3.33% |
| 33 | Market rally, Inflation 4 | Spot : 10% ; Credit : -25% ; Vol : -10% ; Rates : 12.5% | 3.42% |
| 34 | Market rally, Inflation 5 | Spot : 10% ; Credit : -25% ; Vol : 0% ; Rates : 12.5% | 3.65% |
| 35 | Market rally, Inflation 6 | Spot : 10% ; Credit : -25% ; Vol : 10% ; Rates : 12.5% | 3.90% |
| 36 | Market rally, Inflation 7 | Spot : 5% ; Credit : -25% ; Vol : -10% ; Rates : 25% | 2.76% |
| 37 | Market rally, Inflation 8 | Spot : 5% ; Credit : -25% ; Vol : 0% ; Rates : 25% | 3.01% |
| 38 | Market rally, Inflation 9 | Spot : 5% ; Credit : -25% ; Vol : 10% ; Rates : 25% | 3.30% |
| 39 | Market rally, Inflation 10 | Spot : 10% ; Credit : -25% ; Vol : -10% ; Rates : 25% | 3.39% |
| 40 | Market rally, Inflation 11 | Spot : 10% ; Credit : -25% ; Vol : 0% ; Rates : 25% | 3.62% |
| 41 | Market rally, Inflation 12 | Spot : 10% ; Credit : -25% ; Vol : 10% ; Rates : 25% | 3.87% |
| | **Worst** | | **-3.30%** |

## Hedge funds liquidation stress tests

Stress tests' scenarios have been improved in order to take into account liquidity issues. This scenario aims at reflecting, to some extent, how the fund would react in distressed market environment (as it was the case in late 2008). These stress tests combine the three following adjustments:

• small and mid caps adjustment

In certain market conditions, small and mid caps beta may become much higher than its level in normal market conditions and thus the hedging of such positions may not be effective. To address this kind of circumstance we apply a corrective factor to the beta of small and mid caps. The factor applied on mid caps is 1.5 and 2 on small caps.

• risk arbitrage adjustment

The risk of risk arbitrage positions is taken into account differently in case the market drops by more than 10%. We consider that one third of risk arbitrage positions will collapse.

• liquidity adjustment

An average discount (realized in 2008) is applied to bond, convertible bond (including mandatory convertible bond) and loan prices in case credit spreads widen by more than 25%.

Mandatories: Adj. price = Max(Shifted Price – 5% * Max(Credit spread shift – 25%, 0), Parity)
Others: Adj. price = Max(Shifted Price – 5% * Max(Credit spread shift – 25%, 0), 0)

| | Scenario | Description | Impact % of NAV |
|---|---|---|---|
| 1 | Delta - spot up | Spot : 10% ; Credit : 0% ; Vol : 0% ; Rates : 0% | 1.57% |
| 2 | Delta - spot down | Spot : -10% ; Credit : 0% ; Vol : 0% ; Rates : 0% | -0.01% |
| 3 | Vega - vol up | Spot : 0% ; Credit : 0% ; Vol : 10% ; Rates : 0% | 0.28% |
| 4 | Vega - vol down | Spot : 0% ; Credit : 0% ; Vol : -10% ; Rates : 0% | -0.37% |
| 5 | Credit spread widen | Spot : 0% ; Credit : 25% ; Vol : 0% ; Rates : 0% | -2.81% |
| 6 | Credit spread tighten | Spot : 0% ; Credit : -25% ; Vol : 0% ; Rates : 0% | 2.77% |
| 7 | Market crash 0.5 | Spot : -5% ; Credit : 25% ; Vol : 15% ; Rates : 0% | -2.52% |
| 8 | Market crash 1 | Spot : -10% ; Credit : 50% ; Vol : 30% ; Rates : 0% | -5.23% |
| 9 | Market crash 2 | Spot : -20% ; Credit : 75% ; Vol : 50% ; Rates : 0% | -6.57% |
| 10 | Market crash 3 | Spot : -30% ; Credit : 100% ; Vol : 70% ; Rates : 0% | -6.87% |
| 11 | Market crash, rates down 1 | Spot : -10% ; Credit : 50% ; Vol : 30% ; Rates : -12.5% | -5.24% |
| 12 | Market crash, rates down 2 | Spot : -20% ; Credit : 75% ; Vol : 50% ; Rates : -12.5% | -6.58% |
| 13 | Market crash, rates down 3 | Spot : -30% ; Credit : 100% ; Vol : 70% ; Rates : -12.5% | -6.88% |
| 14 | Market crash, rates up 1 | Spot : -10% ; Credit : 50% ; Vol : 30% ; Rates : 12.5% | -5.23% |
| 15 | Market crash, rates up 2 | Spot : -20% ; Credit : 75% ; Vol : 50% ; Rates : 12.5% | -6.57% |
| 16 | Market crash, rates up 3 | Spot : -30% ; Credit : 100% ; Vol : 70% ; Rates : 12.5% | -6.87% |
| 17 | Equity Credit decorrelation 1 | Spot : 5% ; Credit : 25% ; Vol : 0% ; Rates : 0% | -1.98% |
| 18 | Equity Credit decorrelation 2 | Spot : 5% ; Credit : 25% ; Vol : 10% ; Rates : 0% | -1.62% |
| 19 | Equity Credit decorrelation 3 | Spot : 5% ; Credit : 25% ; Vol : -10% ; Rates : 0% | -2.31% |
| 20 | Equity Credit decorrelation 4 | Spot : -5% ; Credit : -25% ; Vol : 10% ; Rates : 0% | 2.88% |
| 21 | Equity Credit decorrelation 5 | Spot : -5% ; Credit : -25% ; Vol : -10% ; Rates : 0% | 2.27% |
| 22 | Equity Credit decorrelation 6 | Spot : 0% ; Credit : 25% ; Vol : 10% ; Rates : 0% | -2.42% |
| 23 | Equity Credit decorrelation 7 | Spot : 0% ; Credit : 25% ; Vol : -10% ; Rates : 0% | -3.18% |
| 24 | Market rally 1 | Spot : 5% ; Credit : -25% ; Vol : -10% ; Rates : 0% | 3.15% |
| 25 | Market rally 2 | Spot : 5% ; Credit : -25% ; Vol : 0% ; Rates : 0% | 3.41% |
| 26 | Market rally 3 | Spot : 5% ; Credit : -25% ; Vol : 10% ; Rates : 0% | 3.70% |
| 27 | Market rally 4 | Spot : 10% ; Credit : -25% ; Vol : -10% ; Rates : 0% | 4.11% |
| 28 | Market rally 5 | Spot : 10% ; Credit : -25% ; Vol : 0% ; Rates : 0% | 4.35% |
| 29 | Market rally 6 | Spot : 10% ; Credit : -25% ; Vol : 10% ; Rates : 0% | 4.61% |
| 30 | Market rally, Inflation 1 | Spot : 5% ; Credit : -25% ; Vol : -10% ; Rates : 12.5% | 3.11% |
| 31 | Market rally, Inflation 2 | Spot : 5% ; Credit : -25% ; Vol : 0% ; Rates : 12.5% | 3.38% |
| 32 | Market rally, Inflation 3 | Spot : 5% ; Credit : -25% ; Vol : 10% ; Rates : 12.5% | 3.66% |
| 33 | Market rally, Inflation 4 | Spot : 10% ; Credit : -25% ; Vol : -10% ; Rates : 12.5% | 4.08% |
| 34 | Market rally, Inflation 5 | Spot : 10% ; Credit : -25% ; Vol : 0% ; Rates : 12.5% | 4.32% |
| 35 | Market rally, Inflation 6 | Spot : 10% ; Credit : -25% ; Vol : 10% ; Rates : 12.5% | 4.58% |
| 36 | Market rally, Inflation 7 | Spot : 5% ; Credit : -25% ; Vol : -10% ; Rates : 25% | 3.08% |
| 37 | Market rally, Inflation 8 | Spot : 5% ; Credit : -25% ; Vol : 0% ; Rates : 25% | 3.34% |
| 38 | Market rally, Inflation 9 | Spot : 5% ; Credit : -25% ; Vol : 10% ; Rates : 25% | 3.63% |
| 39 | Market rally, Inflation 10 | Spot : 10% ; Credit : -25% ; Vol : -10% ; Rates : 25% | 4.06% |
| 40 | Market rally, Inflation 11 | Spot : 10% ; Credit : -25% ; Vol : 0% ; Rates : 25% | 4.29% |
| 41 | Market rally, Inflation 12 | Spot : 10% ; Credit : -25% ; Vol : 10% ; Rates : 25% | 4.55% |
| | **Worst** | | -6.88% |

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