

# BOUSSARD & GAVAUDAN HOLDING LIMITED

## JANUARY 2008 REVIEW

### I. COMPANY INFORMATION

Data as of	January 31, 2008
Investment Manager	Boussard & Gavaudan Asset Management, L.P.
Company Domicile	Guernsey
Website	<a href="http://www.bgholdingltd.com">www.bgholdingltd.com</a>
Management fee	1.5% p.a.
Performance fee	20%
<b>Ordinary share</b>	
ISIN Code	GG00B1FQG453
SEDOL Code	B1FQG45
Bloomberg Ticker	BGHL NA
Reuters Ticker	BGHL.AS
Number of ordinary shares outstanding	44,000,000
<b>C share</b>	
ISIN Code	GG00B1XFMJ13
SEDOL Code	B1XFMJ1
Bloomberg Ticker	BGHLC NA
Reuters Ticker	BGHLC.AS
Number of C shares outstanding	53,427,338
Total value of the investments of BGHL based on the estimated NAV for the ordinary share and the C share	€77 million*
Market capitalisation of BGHL based on the share price for the ordinary share and the C share	€08 million

\* Estimated figures

## 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 deliver an 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 will seek to achieve this by investing into Sark Fund Limited (“Sark Fund”). In addition, a proportion of the net assets of the 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. As at today’s note, one such investment has been made. BGHL aims to generate a target annualised return in excess of 10% (net of all fees).

## III. SHARE INFORMATION

	NAV per share*	Month to date performance*	Year to date performance*	Inception to date performance*
Ordinary share	10.8443	-2.30%	-2.30%	8.44%
C Share	9.3601	-2.30%	-2.30%	-6.40%

	Share Price	Month to date performance	Year to date performance	Inception to date performance
Ordinary share	9.90	-10.73%	-10.73%	-1.00%
C Share	8.85	0.57%	0.57%	-11.50%

## IV. BGHL COMPOSITION

The proceeds of the initial public offering of BGHL have been invested into the Sark Fund as of October 31, 2006 (net of a certain amount retained by BGHL for working capital requirements). The proceeds of the secondary offering of BGHL (approximately €34 million) have been entirely invested into the Sark Fund: €30 million as of July 1, 2007 and approximately €4 million as of August 1, 2007 (as a result of the over-allotment).

In addition to the investment in Sark Fund, BGHL has one private equity investment in Countrywide PLC since May 23, 2007.

---

\* Estimated figures

## A. SARK FUND LIMITED

Note that trade examples detailed in each strategy below are among the best and worst performances of the month.



After a very quiet year-end period, markets moved sharply in January. European equity markets plunged by 18.7% on January 23 before ending down at -13.8% at the end of the month. Hence, volatilities on stock markets rose significantly with the VDAX index up to 26.35 from 16.36 (30.59 on January 23) and the VStoxx index up to 30.05 from 18.06 (40.25 on January 23). Credit markets also suffered with the Itraxx Crossover (Series 8) finishing the month at 472 (+132 points).

### *Credit and Capital structure arbitrage*

Credit strategies contributed -32bps\* to the performance of the fund in January. This is largely due to two of our main loan positions. Several senior secured loans lost 20 points in January. We reduced one of our core holdings (cable sector) as soon as the market reopened after the holiday season. We cut/reduced several of our long positions in unsecured risk with a view to reset them at much wider levels, as the high yield market continues to widen on the back of a poor macro outlook, weak equities, and redemptions or reduced capital allocations from all investor types.

Credit markets are clearly facing waves of liquidations, which is why cash instruments (secured, unsecured, and even more subordinated) should continue to underperform derivatives. Although the aggressive Fed action should have a positive impact on the economy in the medium term, the truth is that it does not solve credit problems in the short term. The US monoline situation may not be sorted for some time, and the loan & high yield markets look increasingly weak with no new deals (thereby increasing the probability of defaults). Several senior secured loans are trading wider than unsecured CDS (ex: Seat Pagine Gialle, ISSDC, NTL)... we used these opportunities to trade our short pocket (through CDS) around, and take profit on the credits that had widened beyond our exit targets (NXP, Ineos, Tui, Rhodia).

### *Equities Strategies*

Equities strategies contributed a negative 220bps\* in January. Equity markets were particularly difficult in January as increased risks of recession were sharply priced in and the implications of the subprime and liquidity difficulties continued to worry investors.

We experienced losses from our investment in Vallourec, the French steel tubes manufacturer, due to poor visibility on future earnings and a lower perceived probability of a takeover of the company. We continued to suffer on several holding trades (Ifi-Ifil, Rallye-Casino) as discounts continued to widen in a market still concerned by liquidity. We also saw a negative contribution from Gecina, the French real estate company, that underperformed the sector on concerns of a potential involvement in the takeover of Colonial, a Spanish competitor in financial difficulties due to excessive leverage. We believe Gecina combines an undemanding valuation and very resilient net asset value in a difficult period for the European real estate sector.

Overall our financials portfolio performed positively thanks to its exposure to both specific situations and a general bearish view on the sector. While the expanding ramifications of the liquidity and credit crisis had led to significant balance sheet measures by US financial institutions already in late 2007, January proved conclusively that also European banks will not be immune to

---

\* Estimated figures

significant write downs and capital raising. We broadly benefited from these events (e.g. UBS, Société Générale, BNP Paribas) though our investment in Hypo Real Estate, the German commercial real estate lender, suffered considerably as the management shocked the market with a surprise write down on its CDO portfolio and a cut to its dividend. More specifically, the positive contribution was driven by the persistent M&A speculation around Postbank, the German retail bank, and our investment in Sampo, the Finnish financial services group, which outperformed its peers.

We benefited from our investment in CRH, the building materials manufacturer, as the market was reassured by a positive trading statement and the company reversed previous underperformance vs. the sector. We also gained from our investment in Logista, the Spanish tobacco distributor, as Imperial Tobacco decided to launch a mandatory takeover bid after taking control of Altadis.

### ***Trading***

Trading contributed a positive 4bps\* this month.

### ***Gamma trading***

Gamma trading contributed a positive 107bps\* to the fund's performance in January. With a large correction taking place on equity markets, Europe was hit across all sectors causing implied volatilities to peak and a lot of intraday volatility. Therefore all positions made money through the month. January was particularly volatile for UK retail stocks following Christmas trading disappointments which benefited our long volatility tactical bias in the sector.

### ***Convertible Bonds, Mandatory and Warrant arbitrage***

Convertible bonds contributed a negative 40bps\* to the Sark's performance. The bulk of this loss came from our investments in some European credit sensitive names, which suffered from the very negative market environment, reduced risk appetite, and strong selling pressures from both outright and arbitrage accounts facing redemptions or willing to aggressively reduce risk, on the back of substantial losses experienced in the very first weeks of the year. Valuations of convertible bond with any perceived credit sensitivity were under strong pressure, with some bonds losing as much as 2 points overnight, although this happened in reportedly very low volumes. Secondary activity was indeed much reduced, with a clear lack of bids from investors and with market makers retreating and widening their bid/offer spreads to the downside. This reduced secondary activity and the lack of commitment of some brokers weighed even further on market sentiment and clearly did not support valuations. In this context, the Fortis perpetual subordinated convertible hybrid that we had bought on the primary market in December last year performed poorly. We had reduced the position by half after it had performed particularly well but we still suffered a significant amount of losses as the bonds cheapened on the back of renewed fears of subprime-related writedowns, rumours of needs for further Tier one capital, and the general market turmoil experienced by financials in January, all of which weighed on Fortis' credit spreads. We continue to believe in the great value of these bonds and we will look at increasing our position if the bonds further cheapen. Besides, convertible bond volatility arbitrage (ie. non credit sensitive names) was relatively flat over the month, as long volatilities remained subdued in Europe and did not respond to the sharp increase in realized and short term volatilities. This was the result of outright accounts continuing to sell down higher delta bonds on the back of the equity market collapse seen during the month, actually preventing those bonds to trade higher.

The mandatory convertible bond book suffered a 48bps\* loss this month, as valuations continued to suffer from the widening of the skew experienced in a context of extremely volatile equity

---

\* Estimated figures

markets, reduced risk appetite, fight-to-quality, and widening credit markets. In addition, mandatories were under even more pressure as most of the liquid European mandatory convertible bonds currently have a negative gamma profile (as share prices have fallen way below the lower strikes of those bonds): whilst we have covered the crash risks associated on our positions, we believe some investors preferred to sell their bonds rather than hedging them. Despite the pressure on valuations due to the widening of the skew, we experienced significant gains on some of our bonds, as we had managed to get long gamma through options before the bonds entered into negative gamma territory: whilst short gamma investors had to delta hedge their bonds, we strongly benefited from our long gamma position. One good example of this is the Swiss Re mandatory which contributed +9 bps to the performance of the fund in January, mostly through gamma gains. We remain very committed to this strategy and we continue to actively manage our mandatory positions, which we believe currently present very compelling opportunities.

There was no new issue in Europe in January.

Corporate warrant arbitrage was almost flat this month.

## ANNEX 1: GREEKS

Greeks		
Delta	0.2%	0.2 bps P&L variation for market +1%
Gamma	2.1%	Delta variation for market +1%
Vega	18.9 bps	By vol point
Vega with maturity weight (1/sqrt(T))	22.0 bps	By vol point
Theta	-2.9 bps	By day
Rho	-0.2 bps	For 1 bp of interest rates increasing
Credit sensitivity	-1.8 bps	For 1 bp of credit spreads widening

## ANNEX 2: PERFORMANCE ATTRIBUTION

Contribution to the performance*	
Credit & Capital Structure Arbitrage	-32 bps
Convertible Bonds & Mandatory Arbitrage	-88 bps
Gamma Trading	107 bps
Equities Strategies	-220 bps
Trading	4 bps
Warrants Arbitrage	-1 bp

\* Estimated figures

### ANNEX 3: EQUITY AT RISK

		Equity at Risk
<b>Equities Strategies</b>		<b>16.2%</b>
	Risk Arbitrage	1.1%
	Special Situations	4.6%
	Value with Catalyst	9.9%
	Value	0.7%
<b>Volatilities Strategies</b>		<b>28.1%</b>
	Mandatory Arbitrage	20.5%
	Convertible Bond Arbitrage	6.2%
	Gamma Trading	1.4%
	Warrants Arbitrage	0.0%
<b>Credit Strategies</b>		<b>3.7%</b>
	Credit Arbitrage	3.5%
	Capital Structure Arbitrage	0.1%
<b>Trading</b>		<b>0.4%</b>
	Trading	0.4%
<b>TOTAL</b>		<b>48.3%</b>

### ANNEX 4: HISTORICAL RETURNS SUMMARY

#### Sark Fund Ltd - Euro share class

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
2003	-	-	0.75%	0.76%	0.82%	1.04%	0.93%	1.06%	1.18%	1.55%	1.05%	0.17%	9.69%	<b>9.69%</b>
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%	<b>12.77%</b>
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%	<b>22.58%</b>
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%	<b>45.85%</b>
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%	<b>54.38%</b>
2008	-2.30%*												-2.30%*	<b>50.83%*</b>

#### Sark Fund Ltd - US Dollar share class

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
2003	-	-	0.67%	0.70%	0.77%	0.94%	0.84%	0.97%	1.15%	1.46%	1.01%	0.15%	9.00%	<b>9.00%</b>
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%	<b>11.27%</b>
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%	<b>21.79%</b>
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%	<b>47.72%</b>
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%	<b>58.02%</b>
2008	-2.32%*												-2.32%*	<b>54.36%*</b>

\* Estimated figures

## ANNEX 5: MACROECONOMIC RISKS THROUGH STRESS TESTS

	Scenario	Description	Impact % of NAV
1	Delta - spot up	Spot : 10% ; Credit : 0% ; Vol : 0% ; Rates : 0%	1.01%
2	Delta - spot down	Spot : -10% ; Credit : 0% ; Vol : 0% ; Rates : 0%	1.13%
3	Vega - vol up	Spot : 0% ; Credit : 0% ; Vol : 10% ; Rates : 0%	0.56%
4	Vega - vol down	Spot : 0% ; Credit : 0% ; Vol : -10% ; Rates : 0%	-0.63%
5	Credit spread widen	Spot : 0% ; Credit : 25% ; Vol : 0% ; Rates : 0%	-1.19%
6	Credit spread tighten	Spot : 0% ; Credit : -25% ; Vol : 0% ; Rates : 0%	1.06%
7	Market crash 1	Spot : -10% ; Credit : 50% ; Vol : 30% ; Rates : 0%	0.94%
8	Market crash 2	Spot : -20% ; Credit : 75% ; Vol : 50% ; Rates : 0%	4.96%
9	Market crash 3	Spot : -30% ; Credit : 100% ; Vol : 70% ; Rates : 0%	10.19%
10	Market crash, rates down 1	Spot : -10% ; Credit : 50% ; Vol : 30% ; Rates : -12.5%	1.05%
11	Market crash, rates down 2	Spot : -20% ; Credit : 75% ; Vol : 50% ; Rates : -12.5%	5.08%
12	Market crash, rates down 3	Spot : -30% ; Credit : 100% ; Vol : 70% ; Rates : -12.5%	10.30%
13	Market crash, rates up 1	Spot : -10% ; Credit : 50% ; Vol : 30% ; Rates : 12.5%	0.82%
14	Market crash, rates up 2	Spot : -20% ; Credit : 75% ; Vol : 50% ; Rates : 12.5%	4.85%
15	Market crash, rates up 3	Spot : -30% ; Credit : 100% ; Vol : 70% ; Rates : 12.5%	10.08%
16	Equity Credit decorrelation 1	Spot : 5% ; Credit : 25% ; Vol : 0% ; Rates : 0%	-0.82%
17	Equity Credit decorrelation 2	Spot : 5% ; Credit : 25% ; Vol : 10% ; Rates : 0%	-0.11%
18	Equity Credit decorrelation 3	Spot : 5% ; Credit : 25% ; Vol : -10% ; Rates : 0%	-1.44%
19	Equity Credit decorrelation 4	Spot : -5% ; Credit : -25% ; Vol : 10% ; Rates : 0%	1.87%
20	Equity Credit decorrelation 5	Spot : -5% ; Credit : -25% ; Vol : -10% ; Rates : 0%	0.82%
21	Equity Credit decorrelation 6	Spot : 0% ; Credit : 25% ; Vol : 10% ; Rates : 0%	-0.49%
22	Equity Credit decorrelation 7	Spot : 0% ; Credit : 25% ; Vol : -10% ; Rates : 0%	-1.82%
23	Market rally 1	Spot : 5% ; Credit : -25% ; Vol : -10% ; Rates : 0%	0.84%
24	Market rally 2	Spot : 5% ; Credit : -25% ; Vol : 0% ; Rates : 0%	1.34%
25	Market rally 3	Spot : 5% ; Credit : -25% ; Vol : 10% ; Rates : 0%	1.90%
26	Market rally 4	Spot : 10% ; Credit : -25% ; Vol : -10% ; Rates : 0%	1.56%
27	Market rally 5	Spot : 10% ; Credit : -25% ; Vol : 0% ; Rates : 0%	2.05%
28	Market rally 6	Spot : 10% ; Credit : -25% ; Vol : 10% ; Rates : 0%	2.62%
29	Market rally, Inflation 1	Spot : 5% ; Credit : -25% ; Vol : -10% ; Rates : 12.5%	0.67%
30	Market rally, Inflation 2	Spot : 5% ; Credit : -25% ; Vol : 0% ; Rates : 12.5%	1.18%
31	Market rally, Inflation 3	Spot : 5% ; Credit : -25% ; Vol : 10% ; Rates : 12.5%	1.76%
32	Market rally, Inflation 4	Spot : 10% ; Credit : -25% ; Vol : -10% ; Rates : 12.5%	1.40%
33	Market rally, Inflation 5	Spot : 10% ; Credit : -25% ; Vol : 0% ; Rates : 12.5%	1.91%
34	Market rally, Inflation 6	Spot : 10% ; Credit : -25% ; Vol : 10% ; Rates : 12.5%	2.49%
35	Market rally, Inflation 7	Spot : 5% ; Credit : -25% ; Vol : -10% ; Rates : 25%	0.50%
36	Market rally, Inflation 8	Spot : 5% ; Credit : -25% ; Vol : 0% ; Rates : 25%	1.03%
37	Market rally, Inflation 9	Spot : 5% ; Credit : -25% ; Vol : 10% ; Rates : 25%	1.63%
38	Market rally, Inflation 10	Spot : 10% ; Credit : -25% ; Vol : -10% ; Rates : 25%	1.26%
39	Market rally, Inflation 11	Spot : 10% ; Credit : -25% ; Vol : 0% ; Rates : 25%	1.79%
40	Market rally, Inflation 12	Spot : 10% ; Credit : -25% ; Vol : 10% ; Rates : 25%	2.38%
	<b>Worst</b>		<b>-1.82%</b>

## B. PRIVATE EQUITY INVESTMENT

Following the successful completion of the acquisition by Apollo of Countrywide plc, BGHL has agreed to purchase a stake in the unlisted securities of Countrywide.

BGAM acquired this investment for BGHL from certain other funds it manages, including the Sark Master Fund, which (prior to this transaction) was the only investment held by BGHL. Accordingly, this transaction not only represents a continuation of BGHL's exposure to Countrywide, but is also in line with BGHL's investment policy to invest in financial assets other than the Sark Fund. The purchase price paid by BGHL for the unlisted securities was equal to the cost (approximately £12m) to those other funds of acquiring those unlisted securities.

Background to the CWD transaction:

- BGAM initiated an investment in CWD following the initial offer from a private equity firm in September 2006.
- This first offer was rejected by a large group of shareholders and, shortly after, Apollo made a new offer for CWD.
- Apollo's offer was subsequently improved twice as a result of a competitive auction against an undisclosed bidder. Apollo's final offer valued CWD at approximately 629p per share. The offer was finally approved by a large majority of CWD shareholders, including the funds managed by BGAM.
- In addition, Apollo's offer included an unlisted securities alternative that allowed all shareholders to participate in the buyout of CWD led by Apollo. Shareholders representing approximately 57% of CWD, including the funds managed by BGAM, opted for the unlisted securities alternative.
- BGAM welcomes Apollo's innovative approach and structure.

## V. BOUSSARD & GAVAUDAN ASSET MANAGEMENT UPDATE

Please note that transactions in the company's securities that have been performed by officers, directors and persons referred to the section 5:60 of the Financial Supervision Act ("Wft") are reported on the AFM website: [www.afm.nl](http://www.afm.nl) (public database > notification > insider-transactions 5:60 wft).

As of February 1, 2008, Sark Master Fund Limited's assets under management were approximately €2.0bn.

Please note that Sark Fund remains closed.

We are pleased to welcome François-Xavier Baud in the operations team. Prior to that, François-Xavier was a consultant in banks for 2 years. He is a graduate from Pantheon Sorbonne University.

Sincerely,

E. Boussard & E. Gavaudan

### Contact information

#### Investors

Boussard & Gavaudan Asset Management, LP  
 Emmanuel Gavaudan  
 1 Dover Street  
 London W1S 4LA

#### Media

Financial Dynamics  
 Robert Bailhache / Charles Gorman  
 Holborn Gate  
 26 Southhampton Buildings  
 London WC2A 1PB



## **Disclaimer**

This newsletter contains forward-looking statements, including statements relating to market conditions and environments, estimated performance of investment strategies, investment activities and funding of BGHL. Such forward-looking statements involve unknown risk, uncertainties and other factors, which may cause the actual results, financial condition, performance or achievement of BGHL, or market conditions or investment strategies, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. BGHL does not undertake an obligation to update its forward-looking statements to reflect future events.

This announcement is not (i) an offer to sell or a solicitation of any offer to buy the ordinary shares of BGHL (the "Securities") or any other securities in the United States or in any other jurisdiction, (ii) any invitation or inducement to engage in investment activity or financial promotion of any kind, or (iii) investment advice or a recommendation.

BGHL is established as an investment company domiciled in Guernsey. BGHL has received the necessary approval of the Guernsey Financial Services Commission and the States of Guernsey Policy Council. BGHL 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.

You should always bear in mind that:

- all investment is subject to risk;
- results in the past are no guarantee of future results;
- the investment performance of BGHL may go down as well as up. You may not get back all of your original investment; and
- if you are in any doubt about the contents of this communication or if you consider making an investment decision, you are advised to seek expert financial advice.

BGHL has not been and will not be registered under the US Investment Company Act of 1940, as amended (the "Investment Company Act"). In addition, the Securities have not been and will not be registered under the US Securities Act of 1933, as amended (the "Securities Act"). Consequently, the Securities may not be offered, sold or otherwise transferred within the United States or to, or for the account or benefit of, US persons except in accordance with the Securities Act or an exemption therefrom and under circumstances which will not require BGHL to register under the Investment Company Act. Accordingly, US Persons acquiring the Securities are subject to significant restrictions on transfer. In addition, US persons who are not qualified purchasers (within the meaning of section 3(c)(7) of the Investment Company Act) will be prohibited from purchasing the Securities at any time, including on the secondary market. No public offering of the Securities has been or will be made in the United States.

This communication is for information purposes only and the information contained in this communication should not be relied upon as a substitute for financial or other professional advice.