# Q1 2021 Investor Letter

31 March 2021

## Current Investment Thesis

Welcome to our third Quarterly Investor Letter. For the first Quarter of 2021 TDCOP delivered returns of 3.96%. TDCOP finished its first 9 months period since its July 1st 2020 launch with a return of 11.55% (16.11% annualized). It is interesting to note that we now observed the 3rd month since the fund's launch where equity markets were down, and the fund was up (this happened in September & October and again in January). The fund is proving its resilience in a volatile equity world. Moreover, given the sudden shift in US rates in particular in February and March, with a significant spike in interest rate volatility, the fund has also held up well against other sources of fixed income investments and outperformed hedge funds in general, as measured by the HFRX index, with significantly less volatility.

### Strategy

It finally seems as if there is light at the end of the tunnel with respect to the COVID 19 pandemic, with vaccination programs being rolled out and lockdown measures hopefully impacting the infection rates. Government and Central Bank support has continued to support economies and businesses with record money printing occurring.

As a consequence, the expected flood of corporate bankruptcies and liquidations, has mostly been staved off for the time being. In fact, many larger investors that had raised large amounts of capital to invest into distressed opportunities, have only been able to draw down and invest small amounts of capital. When we launched TDCOP, this was clearly one of our main concerns. We have seen before how mega sized managers launch large funds (which was expected given where we were in the cycle), however, given the uncertainties and lack of visibility, they might not be able to deploy their capital effectively.
Our focus was on niche managers that had a very clear edge in what they were doing. In particular, our focus was on the US structured credit market, with a focus on US consumer credit, which had faced a significant technical sell off, whereas the assets were still good value. In addition, the managers had certain protection strategies in place should a significant market sell-off occur again. (We encourage you to read our previous newsletters as well as underlying manager reports if you want a reminder).

Our aim was to allocate with a focus on the structured credit opportunity as the strategy recovered. We also have exposure to emerging markets where we had capacity with one of the leading specialists, as well as a distressed manager, with a large and flexible platform who would pivot into distressed opportunities when available and in the meantime would actively trade around opportunities.

### Returns

This strategy is working well. Our structured credit book is targeting mid-teen returns as asset prices normalize. The Emerging Markets manager has completed some long delayed restructurings and has a book of assets, which -for a large part - is trading at high teen expected returns. The large, distressed platform manager is working on the sale of some post reorg situations, which should contribute positively to their returns.

It is clear that the anticipated wave of distressed investment opportunities has not materialized yet. We still expect this to come. When this opportunity materializes we will pivot the portfolio to capitalize on it. We are not dependent on the timing for this to occur as we expect our current portfolio to continue to deliver high, steady returns while being significantly protected in the more richly priced and vulnerable parts of the credit markets.

On a side note – we offered to our investors a co-investment opportunity in a structured credit fund with a focus on corporate loans in October 2020. The reason for this is because the fund's liquidity profile did not match TDCOP's liquidity profile. In addition, we were less convinced about investing in this space early on in the year. However, given the structure of the fund, our investors were able to invest into the space in October but at April prices with a lot more information and downside protection as there were already significant gains embedded. These sorts of opportunities will arise from time to time for our investors and can act as an interesting performance enhancer, given the uniqueness of the opportunity set.

Given the time lag between us getting this report out and the managers sending us their reports, we have included some of the older reports here as well. We suggest reading the individual manager reports which you can find via the links provided, which provide more insight to the managers as the top level has not fundamentally changed. Two of the managers presented at the Legends4Legends online webinar. We encourage you to listen to the recording by clicking here.

[1] All returns refer to Class A shares

## Funds

**Fund I - Emerging Markets Distressed Debt – Quarterly Return 4.05%**

### Q1 summary

This quarter was a month of progress for the portfolio, in particular, with agreements on four important debt restructurings struck during February. The Manager played central roles in the negotiations of each of these deals. From a returns perspective, they realized some upside during the quarter as a result of the restructurings, with Puerto Rico, Argentina provincial debt and DTEK . Importantly, a significant amount of future return potential remains in these strategies which they hope to reap in coming months.

**Fund II – Structured Credit – Quarterly Return 5.54%**

### Q1 summary

Given the heightened interest rate volatility and somewhat mixed relative flatness across many credit products in the latter half of the quarter, the fund managed well, with a solid uplift in prices, with many technical factors playing a role. Returns are still being generated by the residential part of the portfolio with the bulk coming from agency backed loans. In addition, consumer loans continued to generate positive returns as the US consumer slowly got back on track. Hedges detracted from returns as markets continued to rally. The fund continues to benefit from the increased activity in primary and secondary markets which facilitate a healthy level of trading opportunities.

**Fund III – Structured Credit– Quarterly Return 0.04%**

### Q1 summary

A large part of the portfolio consists of non-agency RMBS. Given the backdrop of low housing supply, speed at which properties are selling, HPI at 10% (20% in some regions) as well as increase of input costs for housing, it is no wonder that the asset class has done well since the technical sell off in March 2020, In the words of the PM – ''this is the number 1 asset class in the world – not even a doubt''. On the other hand, the manager is also actively trading a lot of CMBS. They see significant bifurcation in prices, with many good assets being sold cheaply and bad quality assets selling expensively. This is throwing up significant trading opportunities given the structural nuances, which they have been preparing for this for years in terms of building up the right systems, deal flow and knowledge. They expect this situation to persist for many years. They feel they have built up a balanced portfolio and have given up a bit of their upside in order to build in protections, with a focus on shorting ''the wrong stuff''. The portfolio remained flat for the quarter with the core portfolio generating positive returns in almost all sectors. However, the hedges detracted, with shorts in the high yield, CMBX and tail hedges offsetting the gains made in the core portfolio.

**Fund IV – Structured Credit– Quarterly Return 2.86%**

### Q1 summary

Unlike the evaporation of distressed corporate credit investment opportunities since Q1 2020, the manager's target sectors appear to have longer "tails," thus providing ample potential investment capacity in 2021. The supply of non-performing government-insured loans continues to rise. While the market has recently become more competitive (primarily for bulk deals), we believe that the Fund maintains a number of competitive advantages:

- Owning a License: Required license with the regulator (i.e., Federal Housing Administration) must be in good standing, which effectively limits the number of potential bidders with available balance sheets.
- Utilizing Asset Management: Specific strategies put in place with at least 2 special servicers to re-perform borrowers and cure delinquent loans and thus provide for relatively high rates of "re-pooling" and ultimate sale of cured loans.
- Creating a Conduit: Since 3Q20, the manager has established a conduit to source small trades (i.e., under $50MM) from mid-market mortgage companies where there are greater capital needs and a limited number of bidders as compared to bulk sales. As a result, the manager has been able to capture notable price discounts on such trades (e.g., 85-91 for small trades versus 96.5-98.5 for bulk).

With a projected Gross Levered Yield of ~16% for the Victoria portfolio in the first quarter 2021, we believe the Fund is well-positioned to achieve its targeted low-teens net return in 2021. The strategy represents a strong diversifier away from corporate credit with price recovery trajectories across the portfolio, which will also benefit from potential upside from mark-to-market gains (due to lagged spread tightening in the Fund's less-liquid loan assets), capital gains from asset management, as well as upcoming securitizations.

**Fund V – Distressed Debt– Quarterly Return 7.43%**

### Q1 summary

The fund has had its best quarter in quite a while. It is fairly concentrated with its 5 largest long holdings making up 42% of the fund. Its largest position, which is in a post reorg equity position (MGM Studios), is expected to be exited in the foreseeable future. The manager has taken an active role in the sale of the company and given the strong demand for content, despite the position having run up in recent months, there is still significant upside expected. The other 4 positions have also performed nicely in the last quarter and one position has also returned some capital. The short book has been reduced since Q4. The manager remains concerned about corporate credit fundamentals, given the alarming combination of highly leveraged balance sheets, significant ongoing business uncertainty, and a global pandemic of still-unknown scale and duration. However, given the support provided by central banks, many of these shorting opportunities are being provided lifelines which allows them to carry on. As a consequence, the manager has taken off some risk in its short book. They are still well hedged (with net exposure of aprox 54%) should a market dislocation occur.

THETA CAPITAL MANAGEMENT

# FACTSHEET

## Theta Distressed Credit Opportunities Pool – TDCOP US$ share classes

31 March 2021

### Fund Characteristics

| | |
|---|---|
| Fund AuM | $ 40,615,919.00 |
| Strategy AuM* | $ 79,500,000.00 |
| Number of holdings | 5 |
| Top holding | 20% |
| Top 5 holdings | 100% |

### NAV & MTD performance (net of fees)

| | | |
|---|---|---|
| Class A US$ | $ 1,118.43 | 0.81% |
| Class B US$ | $ 1,109.14 | 0.74% |

* Includes assets in Theta managed accounts

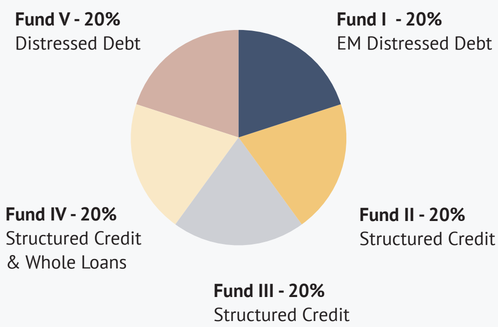
### Fund Strategy & description

TDCOP will allocate to 4-8 specialist managers at any time, depending on the evolving opportunity set, with a focus on investing in dislocated credit instruments and distressed debt and restructuring opportunities.

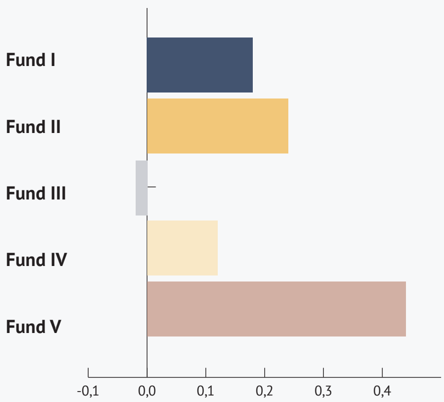
TDCOP will allocate to managers in the structured credit, corporate and sovereign credit space in both developed and emerging markets that have the experience and infrastructure to capitalize on the increased volatility and dispersion in markets as well as anticipated restructurings and liquidations.

Attractive investment opportunities have been limited for distressed debt managers in recent years. We have used this period to secure capacity with the best managers who have been closed to new capital but are now opening up to capitalize on the suddenly vastly expanded opportunity set.

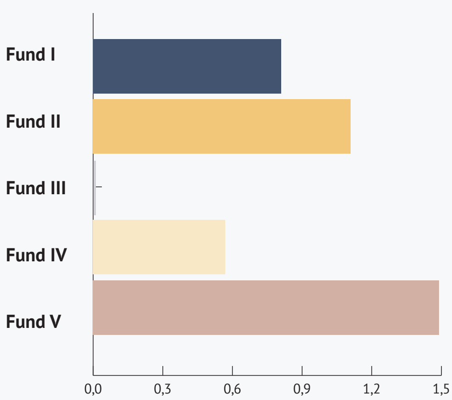
### Strategy breakdown




### Strategy contribution (MTD, %)




### Strategy contribution (YTD, %)




### Returns (net of fees)

| | Fund | HFRX |
|---|---|---|
| Annualized returns* | 16.11% | 12.69% |

### Risk (Standard Deviation)

| | Fund | HFRX |
|---|---|---|
| Annualized St. Dev.* | 2.42% | 4.09% |

### Sharpe Ratio

| | Fund | HFRX |
|---|---|---|
| Sharpe Ratio* | 6.66 | 3.10 |

### Monthly Fund[1] returns (net of fees, USD)

| Class A | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD | HFRX[2] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2020 | | | | | | | 0.91% | 1.44% | 0.34% | 0.60% | 1.58% | 2.51% | 7.59% | 7.98% |
| 2021 | 2.01% | 1.09% | 0.81% | | | | | | | | | | 3.96% | 1.29% |

1) Fund = Theta Distressed Credit Opportunity Pool Class A
2) Reference index = HFRX Global Hedge Fund Index

### Co-Investment Returns (net of fund fees, USD)

| Co-Investment[1] | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD[2] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2020 | | | | | | | | | | 36.60% | 7.80% | 3.30% | 52.11% |
| 2021 | 3.00% | 0.20% | -0.70% | | | | | | | | | | 2.48% |

1) Theta Capital Management offered investors to join a co-investment in ZAIS Zephyr 7 Fund per October 1st 2020. The investment offered a highly attractive opportunity to invest in CLO tranches at dislocated prices. It was offered as a co-investment directly into the fund as the liquidity structure of the investment did not fit TDCOP
2) Based on capital called

THETA CAPITAL MANAGEMENT

# FACTSHEET

**Theta Distressed Credit Opportunities Pool – TDCOP US$ share classes** 31 March 2021

## Subscriptions & Redemptions

| | |
|---|---|
| Base Currency | USD |
| Subscriptions Class A | Monthly, 5 business days |
| Subscriptions Class B | Monthly, 5 business days |
| Minimum Subscription Class A | USD 5.000.000 |
| Minimum Subscription Class B | USD 125.000 (subject to manager discretion) |
| Redemption Notice | Quarterly, 90 days |
| Investor-level Gate | 25% |
| Lock up Class A | 2 years |
| Lock up Class B | 1 year |

## Fees & Expenses

| | |
|---|---|
| Management Fee Class A | 0.35% |
| Management Fee Class B | 1.00% |
| Performance Fee Class A | 5% |
| Performance Fee Class B | 10% |
| Hurdle | 5% |

## Management & Administration

| | |
|---|---|
| Fund Structure | Fonds voor Gemene Rekening (FGR) |
| Management Company | Theta Fund Management B.V. |
| Administrator | Apex Fund Services (Netherlands) B.V. |
| Depository | Darwin Depository Services B.V. |
| Legal Owner | Stichting Juridisch Eigenaar TDCOP |
| Auditor | Ernst & Young Accountants LLP |
| Legal & Tax Counsel | Greenberg Traurig, LLP |

## Investor Relations

| | |
|---|---|
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### Disclaimer

Theta Distressed Credit Opportunities Pool – TDCOP (the "Fund"), is domiciled in The Netherlands. Theta Fund Management B.V. (Theta) is the management company of the Fund a 100% subsidiary of Theta Capital Management B.V.. Theta is authorised as a management company and regulated by the Dutch regulator Autoriteit Financiële Markten. The Fund is registered under the license of Theta at the Autoriteit Financiële Markten. The shares of the Fund are admitted for (public) offering in The Netherlands. The information in this document provides insufficient information for an investment decision. Please read the Key Information Document (only for the Netherlands) and the prospectus. These documents of the Fund are available on the website of Theta (www.thetacapital.com).