THETA CAPITAL MANAGEMENT

FACTSHEET

Theta Distressed Credit Opportunities Pool – TDCOP US$ share classes

30 September 2020

Fund Characteristics

Fund AuM	$ 33,424,507.00
Strategy AuM*	$ 71,000,000.00
Number of holdings	5
Top holding	20%
Top 5 holdings	100%

NAV & MTD performance (net of fees)

Class A US$	$ 1,027.12	0.34%
Class B US$	$ 1,024.84	0.29%

* Includes assets in Theta managed accounts

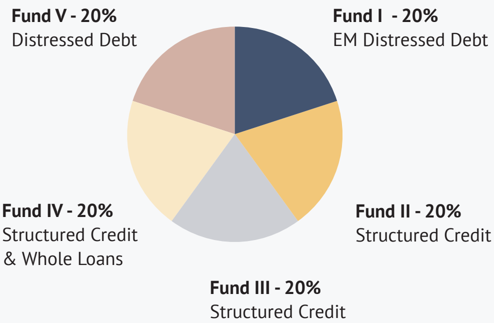
Fund Strategy & description

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.

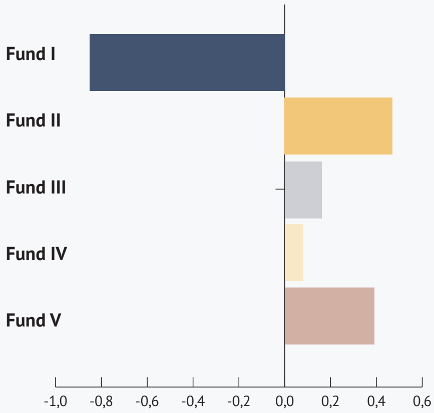
TDCOP will allocate to managers in the structured credit, corporate and sovereign credit space in both developed and emerging markets that have the experience and infrastructure to capitalize on the increased volatility and dispersion in markets as well as anticipated restructurings and liquidations.

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.

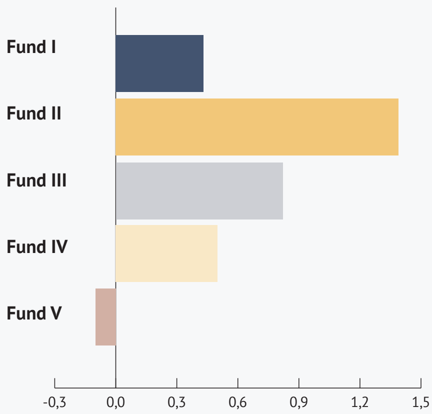
Strategy breakdown



Strategy contribution (MTD, %)



Strategy contribution (YTD, %)



Returns (net of fees)

	Fund	HFRX
Annualized returns*	2.71%	2.74%

* For the first year, year-to-date returns are shown

Risk (Standard Deviation)

	Fund	HFRX
Annualized St. Dev.*	NA	NA

* Insufficient data

Sharpe Ratio

	Fund	HFRX
Sharpe Ratio*	NA	NA

* Insufficient data

Monthly Fund returns (net of fees, USD)

Class A	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	HFRX
2020							0.91%	1.44%	0.34%				2.71%	2.74%

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

The value of your investment may fluctuate. Past performance provides no guarantee for the future.

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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 120.000 (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).

Current Investment Thesis

Welcome to our first Quarterly Investor Letter. The fund launched successfully on July 1st in what seemed very different times then today. When we launched, the effects of the COVID-19 pandemic were still being felt, although the initial set of restrictions had been loosened. This seems to change every day now. The knock-on effects on markets was also wide-ranging. Certain "work from home" stocks rallied, whilst more pandemic stricken stocks continued to fall and have not recovered. In the credit markets, the 'easy' trades of March and April, of buying investment grade bonds at a discount had snapped back. However, it is the credit markets that we feel still provides the largest opportunity set. In this letter we aim to explain, why we have selected the managers we have and what the opportunity set is for those managers.

We want to reiterate the positioning of the fund:

i) We see opportunities in dislocated parts of the credit markets, especially structured credit. In the RMBS space the underlying assets (US housing) are stable, but the prices of the securities faced a technical sell off and have not fully recovered yet. Whole loans in the same sector also offer significantly more interesting pricing now as well. In general, the long only part of these strategies can deliver high teen returns.

ii) There are additional opportunities in shorting credit as well both in the corporate space as well as commercial real estate. In corporate credit overall, pricing is only slightly wider than 12 months ago, even though we face a significantly different economic environment today. The issues of commercial real estate are clear to anybody and holding protection on some of the subordinated tranches of CMBS makes us think back to the short subprime trade in 2006 and 2007. The immediately pulled bazooka of Central bank liquidity has kept capital markets wide open and is maintaining these spreads artificially tight; however, we think it is a matter of time before they could widen again. Liquidity does not solve for solvency!

iii) The core portfolio today can be summarized as being long the fundamentally strong, but relatively cheap consumer credit structures, while applying hedges in the fundamentally weak and relatively expensive corporate credit markets. Both sides offer an attractive absolute return prospective. It puts us in an attractive position to shift the allocation to pure corporate distressed opportunity whenever defaults increase and corporate credit markets sell off, whilst not being dependent on the timing of it.

In summary, we are well positioned to take advantage of mispriced dislocations as well as highly complex, process driven situations.

Returns

TDCOP gained +2.71% (Class A shares) during its first quarter of operation. On an annual basis this translates into a net return of 11.29% which is in line with the target of the Fund. Also, the quarter displayed some of the resilience we think the portfolio should demonstrate against deteriorating market conditions. In September, the portfolio gained 0.34% while equity- and credit markets were sharply lower.

Returns were driven by the solid performance of the core long books, predominantly mortgage backed securities. Hedges in structured commercial real estate contributed as well. Corporate credit hedges detracted in July and August but contributed in September. Emerging markets contributed in July and August but detracted in September, in particular as Argentina faced a technical sell-off following its successful debt restructuring.

In terms of strategy we remain comfortable with the five managers currently in the portfolio, with a focus on structured consumer credit and a cautious stance on corporate credit markets. As capital markets have remained wide open, it remains too early to allocate to the more "pure distressed" corporate debt specialists. We expect this will change in the future, but we are happy to stick with the current portfolio as long as this does not materialize.

Funds

Fund I - Emerging Markets Distressed Debt – Quarterly Return 2.16%

The manager of Fund I, invests mainly in distressed debt situations with a focus on emerging markets since 1998. This is an area with very few players, especially with the experience of the Manager. Theta has been invested in his fund since 2003. His style is contrarian, stepping into the markets when risk aversion is at its highest. Investments are highly idiosyncratic and often driven by active involvement of the Fund team. The regions they invest in are spread out, with current concentrations in Argentina, Ukraine. The fund is hard closed at a size of $4.5bln, not allowing any additional inflows, showing the commitment of the manager to focus on returns, rather than asset gathering.

Q3 summary

Unlike their developed markets counterparts, sovereigns, provinces and corporates in emerging markets are not able to borrow as easily to fund large fiscal deficits in order to combat the corona crisis. This leads to emerging markets already providing interesting distressed debt opportunities for experienced players. The Fund is slowly building positions in such new situations while the main p&l driver remains provincial and corporate debt in Argentina. These positions contributed strongly in July and August as the sovereign concluded its debt-restructuring. In September though, these positions detracted as a large wave of selling post restructuring drove bond prices down. With hardly any repayment obligations for the coming 5 years and bond yield that are several percentage points above those of the world's weakest sovereign creditors, these are very attractive positions to hold.

Fund II – Structured Credit – Quarterly Return 6.96%

One of the best RMBS investors which suffered a deep drawdown from the technical dislocations in March but was able to maintain their portfolio. As a result, almost all of March's drawdown was unrealised, creating a very attractive setup for a strong recovery. They are now in a good position to achieve significantly higher yields on assets that have a low risk of impairment. Given the rally in general markets they spend part of the yield on S&P puts while still expecting to achieve attractive double-digit returns.

Q3 summary

The (non-agency) structured credit market is the largest asset class the Fed is not directly supporting thereby creating an investment universe that we continue to believe offers compelling relative value. Today's market environment is ideal for credit focused investors as higher trading volumes and tighter bit/ask spread creates a ripe environment for generating alpha through trading. With asset prices no longer clustered around par, the manager is able to identify a higher number of mispriced opportunities in both directions.

During the quarter two-thirds of the 7% return came from residential mortgage backed securities, with the remaining one third came from other consumer credit, like student loans. Hedges detracted slightly, costing the fund 25bps.

Fund III – Structured Credit– Quarterly Return 4.10%

Similar to Fund II, but more niche focus on legacy non-agency RMBS where they have a real edge. Those legacy assets have very low LTVs with homeowners that have been in their houses for approximately 15 years. Even in draconian economic scenarios they expect these assets to be money good. The Fund was hedged going into this crisis and made a lot of money on their HY and CMBS shorts, part of which they still maintain. It allowed them to be one of the few liquidity providers to REITs and mutual funds selling these assets at fire sale prices in March. As high yield indices rallied back in the early summer, they have reinstated a large part of those hedges.

Q3 summary

The portfolio is running at a 0.75% monthly cash flow and significant pricing upside in their long book. Their hedge book consists of corporate high yield and commercial real estate. The fund also has a 10% gold holding, which serves as a hedge against the unlimited money printing. The fund delivered steady strong performance over the quarter. In July and August the performance was driven by the non-Agency RMBS book, while hedges detracted. In September, performance was primarily driven by the hedges, while the RMBS book still offered a decent positive return.

Fund IV – Structured Credit– Quarterly Return 2.50%

The fund invests into multi-sector high yield loans, with an emphasis on real estate secured loans. The Fund seeks best relative value in primary or secondary (often distressed) markets. The Fund's return comprises cash flow from capital gains on the resolution of distressed loans and net-interest income from performing loans. In particular, the manager buys portfolios of loans from banks and originators, reworks them with their internal service providers to then repackage and securitise the loans. The sharp rally in the most senior liabilities offers them very cheap non-recourse financing. The fund historically has returned a very stable 9-11% net, which going forward is expected to be higher as their existing portfolio recovers from a largely technical sell-off in March and as they deploy news funds at significantly higher rates than pre-covid.

Q3 summary

In congruence with the manager's positive macro housing outlook, The Fund's loan strategy is focused on niche areas where credit and regulatory complexity, along with licensing and limited special servicing capacity, provide opportunities for yield premiums. At the same time, the Fund's strategy has generally avoided areas with high liquidity risk. With fewer buyers in such niche sectors, recovery in these loan asset classes is expected to lag with improving housing fundamentals (and thus, supporting positive cash flow) as a catalyst. The current gross levered yield of the portfolio is around 12% with 20% still in cash to be deployed in the coming months and with significant room for price appreciation.

Fund V – Distressed Debt– Quarterly Return -0.50%

An integrated distressed debt manager that dynamically captures the fundamental and technical opportunities across liquid and illiquid markets. The Manager has a trading platform which provides a lot of value in this current phase, while also having the expertise to do middle market restructurings as they will present themselves. On the liquid, trading side there is currently a lot for them to do. We think there is some significant embedded value in some of their longs like Company X, which is a big position. The Manager is also one of the most active funds on individual credit shorts and they have focused on names that would be in trouble in any slight downturn, let alone what's hitting them now. We see embedded value in these shorts as they hardly trade and make a big jump on a credit event. This book is impossible to duplicate. They expect there will be more to do in restructurings in 6 months or so from now.

Q3 summary

For the quarter, the Fund suffered a small loss (-0.5%). The fund actually did well in September (+1.94%) while losing money in July and August. Gains were made during the quarter from performing credit, structured credit and distressed/equity investments, although the recovery in risk assets caused the manager to give back some of its gains in its short positions. However, this period also offered a compelling entry point to set additional credit shorts in areas where the manager believes there is significant default risk given an economic environment that remains both highly challenged and uncertain. The continuation of leveraging activity among corporations with deeply challenged fundamentals has not changed the view that a segment of the High Yield market is facing a high probability of default.