

# TETRAGON

## TETRAGON FINANCIAL GROUP LIMITED (TFG) RELEASE OF PERFORMANCE FOR FULL YEAR 2007

February 28, 2008

Tetragon Financial Group Limited (TFG) today announced its full year 2007 results and published its 2007 Annual Report.

In this performance report, unless otherwise stated, we report on the consolidated business incorporating TFG, Tetragon Financial Group LP and Tetragon Financial Group Master Fund Limited.<sup>(1)</sup> References to “we” are to Polygon Credit Management LP, TFG’s investment manager.

### 2007 FINANCIAL AND OPERATING PERFORMANCE AT A GLANCE

#### Financial Results:

- ❖ **Earnings per share:** EPS for 2007, including an imputed calculation for the period prior to the settlement of the IPO on April 26, 2007<sup>(2)</sup> was \$0.94. EPS for the period from IPO to year-end was \$0.48.
- ❖ **Quarterly dividends initiated post-IPO:** In each of the three quarters since the IPO, the Board of Directors of TFG has declared a dividend of \$0.15 per share, for a total of \$0.45 per share for the year. The dividend for Q4 2007 of \$0.15 per share was approved on February 27, 2008 and will be paid on March 27, 2008.
- ❖ **Strong growth in net income and cash flows:** Net income increased by over 170% year-over-year during 2007 and totaled \$99.2 million. Cash flows from operations increased approximately 500% during 2007 relative to 2006.
- ❖ **Growth in net assets:** At the end of December 2007, consolidated net assets were approximately \$1.26 billion. Year-end NAV per share was \$10.03.
- ❖ **IRRs held up well in 2007:** Weighted-average IRRs remained within our historical range in 2007, ending the year at approximately 16.6%.
- ❖ **Life-to-date net loss reserves building well:** Approximately \$106 million of net excess losses have been factored into our IRR calculations at the end of December 2007, up from \$38 million at the end of Q1 2007.
- ❖ **Reduced leverage:** Overall corporate leverage was approximately 1.1x as of December 31, 2007, down from 1.3x at the end of 2006.
- ❖ **Solid results:** Measured in portfolio growth, income and dividend payouts in a challenging market environment.

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(1) TFG invests substantially all its capital through the Master Fund, in which it holds a 94% share. TFGLP, a U.S. “feeder fund”, holds the remaining 6% interest in the Master Fund. TFG and TFGLP receive a pro-rata allocation of the performance of the Master Fund.

(2) January 1, 2007 through April 26, 2007 EPS was derived from illustrative historical TFG Class C share performance, calculated as a change in Net Asset Value per Share during the period of January 1, 2007 through April 26, 2007. This reflects EPS based on the average shares in issue during the month, after translating pre-IPO shares into post-IPO equivalents.

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## Portfolio Summary:

- ❖ **Portfolio size grew significantly:** As of the end of 2007, the investment portfolio totalled \$1.45 billion, with exposure to approximately \$17 billion of leveraged loans. During 2007, the investment portfolio grew by over 180% and our exposure to leveraged loans increased by over 200%.
- ❖ **Portfolio composition now focused exclusively on CLOs:** As of the end of 2007, TFG's performing portfolio consists solely of 61 collateralized loan obligation investments managed by 32 CLO managers. TFG's transactions with exposure to RMBS, which represented approximately 5.3% of net assets, were written down to zero in October 2007.

## Operating Performance Highlights:

- ❖ **TFG default loss levels outperformed the market:** TFG's 2007 corporate loan defaults were 0.13% – a level that is over 67% below the 0.40% U.S. speculative grade loan default rate, based on the total par amount outstanding, reported by Moody's for the 12-months ending December 2007<sup>(3)</sup> and over 95% below the historical average of 3.1%.<sup>(4)</sup>
- ❖ **Spread widening helped performance:** The stability of our 2007 CLO transaction cash flows was supported by the reinvestment of prepayment proceeds at wider spread levels and/or at lower prices within our transactions, as well as incremental trading gains generated by our asset managers during the recent credit market dislocation.

## 2007 Annual Report and Audited Financial Statements:

Our full 2007 annual report and 2007 audited financial statements can be found at our website, <http://www.tetragoninv.com/tetragon/fininfo/reports/quarterly>.

### INVESTOR CONFERENCE CALL

We will host a conference call for investors on Friday, February 29, 2008 at 16:00 GMT/17:00 CET/11:00 EST to go through the full year 2007 results and to provide a company update.

The conference call may be accessed by dialing +44 (0)20 7162 0025 and +1 334 323 6201 (a passcode is not required). Participants may also register for the conference call in advance by going to:

<https://eventreg1.conferencing.com/webportal3/reg.html?Acc=492230&Conf=153617>

or by going to the TFG website, [www.tetragoninv.com](http://www.tetragoninv.com).

A replay of the call will be available for 31 days by dialing +44 (0)20 7031 4064 and +1 954 334 0342, access code 784060 and as an MP3 recording on the TFG website.

(3) Source: Moody's Investor Service: "Moody's Global Leveraged Finance Monthly Commentary" February 2008.

(4) Source: Barclays Capital: "US Credit Strategy" January 2008.

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Expected Upcoming Events	Date
Quarterly Investor Conference Call - 11:00 am EST, 16:00 pm GMT, 17:00 pm CET	February 29, 2008
Q4 ex-dividend date	February 29, 2008
Q4 dividend record date	March 4, 2008
February 2008 Monthly Update published	March 14, 2008
Q4 dividend payment date	March 27, 2008

## About Tetragon:

Tetragon Financial Group Limited (TFG) is a Guernsey closed-ended investment company traded on Euronext Amsterdam by NYSE Euronext under the ticker symbol "TFG."

Tetragon Financial Group Limited (TFG) currently invests through long-term funding vehicles such as collateralized loan obligations (CLOs) in selected securitized asset classes and aims to provide stable returns to investors across various interest rate and credit cycles.

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## TO OUR SHAREHOLDERS

2007 was a milestone year for TFG as we became a public company following the initial public offering (“IPO”) of our shares on Euronext Amsterdam by NYSE Euronext in April 2007. Our objective is to generate distributable income and capital appreciation and, despite the significant upheaval in the global credit markets, we are pleased to report what we believe is success in that endeavor. Our investment strategy of identifying attractive asset classes and top-tier asset managers, and leveraging our structuring expertise and employing active micro and macro hedging strategies resulted in what we believe are solid operating results for 2007, characterized by continued default and loss outperformance of our collateralized loan obligation (“CLO”) investments relative to observed market levels, and the generation of opportunities for the future development of our business.

2007 was also a year marked by unprecedented dislocations and volatility in the fixed income, credit and broader financial markets in both the U.S. and Europe. During the second half of the year, progressive deterioration in the U.S. housing sector forced the rating agencies to aggressively downgrade many mortgage securitizations and re-evaluate their rating methodologies. These actions, along with the accumulation of mortgage-related losses, triggered significant de-leveraging and liquidation pressures across many fixed income markets. The resulting tightening of credit extension by banks and liquidation pressures on investors led to material price declines across a spectrum of credit securities, including senior secured loans. Given that fundamental credit conditions remained relatively stable throughout 2007, we believe that a significant portion of the dramatic and broad-based loan spread widening with respect to performing loans was technical in nature, driven by supply/demand disequilibrium and liquidity constraints. We believe the remaining portion of the widening can be attributed to heightened future loss expectations, which we anticipate will begin to materialize in 2008 in selected industries and sectors. Investors financed with short-term and market-value based leverage (including hedge funds, SIVs, total return swaps, and other market value-based financing structures) felt the brunt of this credit squeeze as they faced reduced availability of capital, increased financing costs and a reduction in liquidity in the underlying fixed income markets.

The negative impact of the dislocation, volatility and losses experienced in the fixed income markets impacted share prices for many public financial institutions, including investment banks, commercial banks, business development corporations, finance companies and specialty finance companies. TFG’s share price was also negatively affected.

The latter half of 2007 was characterized by a sharp reduction in new deal issuance volumes and our efforts were particularly focused on liquidity management (which included a reduction in the level of leverage in the business from 2006 year end levels), risk management and hedging (which contributed a \$10 million net gain in 2007). These efforts were supported by our intensified interaction with the managers of our CLO transactions. We are pleased to report that despite these challenging conditions, we generated solid operating results for the year. During 2007, our investment portfolio grew from 44 investments with a fair value of approximately \$785 million as of the end of 2006 to 67 investments with a fair value of approximately \$1.45 billion as of December 31, 2007. Our notional exposure to leveraged loan and high yield assets increased from approximately \$7.8 billion to over \$17 billion year-over-year. Finally, net income increased approximately 170% from \$36.8 million in 2006 to \$99.2 million in 2007 as a consequence of growth in assets under management and the seasoning of our investment portfolio.

Since October 2007, following the write-down to zero of certain of our investments with exposure to residential mortgage-backed securities, our performing portfolio has been composed solely of investments in the subordinated, residual tranches (“Residual Tranches”) of CLOs. Senior secured bank loans represent the substantial majority of assets underlying this CLO portfolio<sup>(1)</sup> and are financed via term, non-recourse, cash-flow

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(1) The CLO asset characterizations referenced above reflect the primary asset focus of such vehicles. These transactions, however, may allow for limited exposure to other asset classes including unsecured loans, high yield bonds, emerging market loans or bonds, and structured finance securities with underlying exposure to CDO tranches, RMBS, commercial mortgage backed securities (CMBS), trust preferred securities and other types of securitizations.

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based liabilities of the CLOs. The attractiveness of this financing format was highlighted during the latter half of 2007, as technical pressures in the credit markets resulted in what we would characterize as significant loan price volatility, causing many market-value based financing structures to face material de-leveraging pressures, despite a benign 2007 loan default environment.

Having invested substantially all of our IPO equity capital by mid-2007, we were able to lock in term, non-recourse financing for our loan investment portfolio at a weighted average cost of approximately LIBOR + 50 bps.<sup>(2)</sup> In addition, given the cash-flow nature of our financing vehicles, we were appropriately positioned to take some advantage of the credit market dislocation. As holdings in our underlying \$17 billion loan portfolio were prepaid, our asset managers were able to selectively reinvest these proceeds into substantially discounted and/or wider-spread loans. Since the pricing of our liabilities is locked in, any turnover in our existing portfolio increases the amount of cash flow paid on our Residual Tranche investments and is accretive to earnings. We anticipate that such profitable reinvestment activities may continue into 2008 and would therefore enhance the long-term stability and profitability of our Residual Tranche investments. We also believe that the financing efficiency of our securitization vehicles and the inclusion of our enhanced structural features described below, supported by our market expertise and majority stake in such Residual Tranches, may prove valuable in 2008.

In each of the three quarters since the IPO, the Board of Directors of TFG has declared a dividend of \$0.15 per share for a total dividend of \$0.45 for the year, or an annualized dividend yield of approximately 8.6% (assuming a price of \$6.98 as of December 31, 2007). The dividend for Q4 2007 of \$0.15 per share was approved on February 27, 2008 and will be paid on March 27, 2008. Cash flow generation from the business is strong and should continue to improve as our deals season. Net asset value per share grew to \$10.03 after dividend distributions.

In November 2007, we also initiated a share repurchase program of up to 5% of our outstanding shares. During 2007, the Company purchased approximately 310,000 TFG shares at an average price of approximately \$6.95 per share. We continue to be confident in the long-term prospects of TFG and believe that the purchase of shares in the market may, at appropriate price levels below Net Asset Value (NAV), represent an attractive use of TFG's excess cash.

As we look toward 2008, we are positive about potential investment and strategic development opportunities. We believe that the spread widening witnessed during the last months of 2007 in both cash and synthetic assets may offer attractive risk/reward opportunities in certain senior secured loans. Although the financing cost increases and systemic securitization pressures we described earlier are likely to persist in 2008, we will look to selectively deploy TFG's resources in transactions that meet our investment criteria. We anticipate that the level of default losses across senior secured loans may increase in 2008 from the relatively low levels seen in 2006 and 2007, and we will remain focused on seeking to maintain below market-wide levels of default losses.

Finally, we expect that 2008 may bring significant CLO/CDO manager organizational changes and consolidation, potentially presenting us with strategic business opportunities in this sphere. We anticipate that our permanent capital base will permit us to explore such opportunities selectively.

With Regards,

Board of Directors

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(2) Reflects a liability notional-weighted CLO cost of funds and does not reflect the expected average life of each of the tranches.

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## INVESTMENT MANAGER'S REPORT

### PORTFOLIO OVERVIEW

As of December 31, 2007, the fair value of the performing investment portfolio totaled approximately \$1.45 billion and was 100% invested in CLO transactions. Our CLO portfolio continues to be diversified across underlying asset classes and geographies, with approximately 62.5% of risk capital invested in CLOs with primary exposure to U.S. broadly syndicated senior secured loans, 21.7% in CLOs with primary exposure to European broadly syndicated senior secured loans and 15.8% in CLOs with primary exposure to U.S. middle market senior secured loans at the end of 2007.<sup>(1)</sup> In general, senior secured loans found in CLO portfolios are typically rated below Baa/BBB by Moody's and S&P and may be less liquid and more likely to default than senior secured loans of higher credit quality.

In October 2007, following significant ratings downgrades by Moody's and S&P arising from their review of investment vehicles with exposure to U.S. residential mortgage-backed securities ("RMBS") and consultations with asset managers for the affected investment vehicles, we wrote down to zero the Company's investments with exposure to such assets. As a result, the Company's performing portfolio is now solely composed of CLO exposure consisting of 61 CLO investments managed by 32 CLO managers.

Weighted-average IRRs remained within our historical range in 2007, ending the year at approximately 16.6%, despite a drop in interest rates during the last quarter of the year. Three-month LIBOR, a commonly used loan coupon benchmark, fell from approximately 5.23% on September 30, 2007 to approximately 4.70% on December 31, 2007, and has since fallen to 3.09% as of February 25, 2008. Our investments in the Residual Tranches of CLOs generate LIBOR-plus returns and may therefore rise or fall due to interest rate levels and volatility. We believe the relative stability of our IRRs during 2007, despite declining interest rates, was partially attributable to the gradual improvement of effective yields in our underlying loan portfolio, which was made possible by reinvestment at wider spread levels and/or at lower prices, as well as incremental trading gains generated by our asset managers during the recent credit market dislocation.

In 2007, approximately 0.13% of TFG's corporate loan portfolio (i.e., only assets underlying our CLOs) experienced payment or technical defaults, a level that is over 67% below the 0.40% U.S. speculative grade loan default rate, based on the total par amount outstanding, reported by Moody's for the 12-months ending in December 2007<sup>(2)</sup> and over 95% below the historical average of 3.1%.<sup>(3)</sup>

In line with this investment performance, approximately \$106 million of net excess losses have been factored into our IRR calculations to the end of December 2007, as the pace of realized losses continued to track below the long-term average historical levels used to project expected losses on our transactions. These net excess life-to-date losses are transaction-specific and the total figure cited above represents the aggregate sum of net excess losses experienced in the underlying loan portfolios of each of our CLOs. Such amount is calculated by subtracting the actual collateral loss for each transaction from the expected collateral loss, where the expected loss is a function of expected collateral size, TFG's loss assumptions and the length of time each investment has been held.

We were also satisfied with the performance of our hedging strategy, which generated net gains of approximately \$10 million for the year, as our single-name and index hedges benefited from spread widening and increased volatility in the latter part of the year. We remain focused on selectively mitigating our single-name concentrations, exposure to higher risk obligors, and jump-to-default and tail-risk losses.

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(1) The CLO asset characterizations referenced above reflect the primary asset focus of such vehicles. These transactions, however, may allow for limited exposure to other asset classes including unsecured loans, high yield bonds, emerging market loans or bonds, and structured finance securities with underlying exposure to CDO tranches, RMBS, commercial mortgage backed securities (CMBS), trust preferred securities and other types of securitizations.

(2) Source: Moody's Investor Service: "Moody's Global Leveraged Finance Monthly Commentary" February 2008.

(3) Source: Barclays Capital: "US Credit Strategy" January 2008.

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## **PORTFOLIO MANAGEMENT APPROACH**

We continue to actively manage our investment portfolio as we believe that systematic credit analysis can serve as an effective risk management tool. We seek to regularly evaluate our underlying credit exposures as well as CLO quality and coverage tests, as we believe this may more effectively position the portfolio against outsized losses. As part of that process, we monitor trends in credit quality of our underlying exposures and the effectiveness of our asset managers in proactively managing the credit risks inherent in our CLO transactions. In addition to monitoring quantifiable credit parameters, we supplement our analysis by maintaining regular dialogue with our asset managers, and typically combine their credit opinions with our own in order to create more robust hedging solutions.

## **FINANCING SOURCES AND INITIATIVES**

In addition to utilizing embedded leverage associated with CLO investments, the Master Fund currently employs, to a lesser extent, direct leverage through borrowings and other financing arrangements in order to achieve its investment objectives. As of December 31, 2007, overall corporate leverage of the Master Fund stood at approximately 1.1x.<sup>(4)</sup>

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<sup>(4)</sup> Overall leverage represents the ratio of portfolio fair value and the Net Assets of the Company.

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## FINANCIAL REVIEW 2007

### OVERVIEW

The first half of 2007 saw a continuation of the growth in investments and net assets that began in 2006. As a result of the expansion of net assets (including as a result of our IPO), investment income grew strongly and net income increased by over 170%. The investment portfolio became increasingly cash generative with cash flows from operations increasing approximately 500% from 2006.

### CONSOLIDATED INCOME COMPARISON 2007 VS. 2006

Statement of Operations	2007				2006			
	Master Fund (MM)	TFG (MM)	TFG LP (MM)	Consolidated (MM)	Master Fund (MM)	TFG (MM)	TFG LP (MM)	Consolidated (MM)
Interest Income from Investments	\$201.6	\$0.0	\$0.0	\$201.6	\$52.6	\$0.0	\$0.0	\$52.6
Interest Income from Cash	\$12.4	\$0.0	\$0.0	\$12.4	\$3.6	\$0.0	\$0.0	\$3.6
<b>Investment Income</b>	<b>\$214.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$214.0</b>	<b>\$56.2</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$56.2</b>
Management Fees	(\$12.9)	(\$4.0)	(\$1.1)	(\$18.0)	(\$1.1)	(\$3.3)	(\$0.9)	(\$5.3)
Administrative / Custody and Other Fees	(\$2.2)	(\$0.1)	(\$0.0)	(\$2.3)	(\$0.8)	(\$0.1)	(\$0.0)	(\$0.9)
Interest Expense	(\$21.5)	\$0.0	\$0.0	(\$21.5)	(\$7.0)	\$0.0	\$0.0	(\$7.0)
<b>Total Operating Expenses</b>	<b>(\$36.6)</b>	<b>(\$4.1)</b>	<b>(\$1.1)</b>	<b>(\$41.8)</b>	<b>(\$8.9)</b>	<b>(\$3.4)</b>	<b>(\$0.9)</b>	<b>(\$13.2)</b>
<b>Net Investment Income</b>	<b>\$177.4</b>	<b>(\$4.1)</b>	<b>(\$1.1)</b>	<b>\$172.2</b>	<b>\$47.3</b>	<b>(\$3.4)</b>	<b>(\$0.9)</b>	<b>\$43.0</b>
Realized / Unrealized Gains / (Losses) From Hedging	\$10.0	\$0.0	\$0.0	\$10.0	(\$0.1)	\$0.0	\$0.0	(\$0.1)
Net change in Unrealized Appreciation/(Depreciation) in Investments	\$3.7	\$0.0	\$0.0	\$3.7	(\$0.0)	\$0.0	\$0.0	(\$0.0)
Net Realized Gain / (Loss) on Investments	(\$69.1)	\$0.0	\$0.0	(\$69.1)	\$0.0	\$0.0	\$0.0	\$0.0
<b>Realized/Unrealized Gains / (Losses) from Investments and FX</b>	<b>(\$55.4)</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$55.4)</b>	<b>(\$0.1)</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$0.1)</b>
<b>Net Income before Performance Fee</b>	<b>\$122.0</b>	<b>(\$4.1)</b>	<b>(\$1.1)</b>	<b>\$116.8</b>	<b>\$47.2</b>	<b>(\$3.4)</b>	<b>(\$0.9)</b>	<b>\$42.9</b>
Performance Fees	\$0.0	(\$16.1)	(\$1.5)	(\$17.6)	\$0.0	(\$5.6)	(\$0.5)	(\$6.1)
<b>Net Income</b>	<b>\$122.0</b>	<b>(\$20.2)</b>	<b>(\$2.6)</b>	<b>\$99.2</b>	<b>\$47.2</b>	<b>(\$9.0)</b>	<b>(\$1.4)</b>	<b>\$36.8</b>

The table above illustrates how consolidated net income is derived by combining results across all of the group companies. Investment income nearly quadrupled from \$56.2 million last year to \$214 million in 2007. This growth is reflective of a significant increase in net assets and the number of investments in the portfolio as 31 investments were added during 2006 and 23 investments were added in 2007. Furthermore, expenses grew at a slower rate than investment income, increasing from \$13.2 million in 2006 to \$41.8 million in 2007. This was largely due to the reduction and simplification of the Investment Manager's management fee as a percentage of net assets post IPO. Additionally, interest expense increased from \$7.0 million in 2006 to \$21.5 million in 2007, a pace that was slower than the rate of investment income growth. Lower leverage in the portfolio and a small reduction in the average interest rate payable contributed to this slower rate of growth.

Realized / Unrealized Hedging Gains / Losses were positive on a year-over-year basis as hedging gains of approximately \$10 million were recorded in 2007 compared to a loss of \$0.1 million in 2006.

Realized / Unrealized Investment Gains / Losses were negative on a year-over-year basis as a realized loss of \$69.1 million resulted from a \$70 million write-down of the five investments that had exposure to RMBS. These investments now have a carrying value of zero although we continue to hold these assets.

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## CONSOLIDATED INCOME – 2007 QUARTER ON QUARTER COMPARISON

In many respects, a review of income on a quarter-by-quarter basis in 2007 offers greater insight into the income statement than by comparing results to 2006. The table below shows a quarterly net income comparison in 2007.

TFG Quarterly Statement of Operations					
Statement of Operations	Q1 2007 (MM)	Q2 2007 (MM)	Q3 2007 (MM)	Q4 2007 (MM)	Total 2007 (MM)
Interest Income from Investments	\$38.0	\$48.4	\$58.5	\$56.7	\$201.6
Interest Income from Cash	\$2.9	\$3.4	\$3.2	\$2.9	\$12.4
<b>Investment Income</b>	<b>\$40.9</b>	<b>\$51.8</b>	<b>\$61.7</b>	<b>\$59.6</b>	<b>\$214.0</b>
Management Fees	(\$3.8)	(\$4.7)	(\$4.8)	(\$4.7)	(\$18.0)
Administrative / Custody and Other Fees	(\$0.3)	(\$0.3)	(\$0.7)	(\$1.0)	(\$2.3)
Interest Expense	(\$4.0)	(\$4.7)	(\$6.3)	(\$6.5)	(\$21.5)
<b>Total Operating Expenses</b>	<b>(\$8.1)</b>	<b>(\$9.7)</b>	<b>(\$11.8)</b>	<b>(\$12.2)</b>	<b>(\$41.8)</b>
<b>Net Investment Income</b>	<b>\$32.8</b>	<b>\$42.1</b>	<b>\$49.9</b>	<b>\$47.4</b>	<b>\$172.2</b>
Realized / Unrealized Gains / (Losses) From Hedging	(\$1.0)	\$2.0	\$3.9	\$5.1	\$10.0
Net change in Unrealized Appreciation/(Depreciation) in Investments	\$0.0	\$1.0	(\$0.9)	\$3.6	\$3.7
Net Realized Gain / (Loss) on Investments	\$0.8	\$0.0	\$0.0	(\$69.9)	(\$69.1)
<b>Realized/Unrealized Gains / (Losses) from Investments and FX</b>	<b>(\$0.2)</b>	<b>\$3.0</b>	<b>\$3.0</b>	<b>(\$61.2)</b>	<b>(\$55.4)</b>
<b>Net Income before Performance Fee</b>	<b>\$32.6</b>	<b>\$45.1</b>	<b>\$52.9</b>	<b>(\$13.8)</b>	<b>\$116.8</b>
Performance Fees	(\$4.9)	(\$5.9)	(\$6.8)	\$0.0	(\$17.6)
<b>Net Income</b>	<b>\$27.7</b>	<b>\$39.2</b>	<b>\$46.1</b>	<b>(\$13.8)</b>	<b>\$99.2</b>

As with the 2007 and 2006 comparison, the main causes for the changes in net income throughout 2007 are the changes in investments and net assets.

By the start of Q3 2007, the portfolio was almost fully ramped (on a traded basis) and this is reflected in the stability of net investment income across Q3 \$49.9 million and Q4 \$47.4 million.

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## PERFORMANCE METRICS AND DRIVERS

The table below illustrates certain performance metrics and drivers that we believe contribute to net income stability. By the middle of 2007, the rate of growth of investments had slowed, while net assets, leverage and weighted-average IRRs of completed transactions all remained within a narrow range.

The EPS of \$0.94 for 2007 shown below includes an imputed calculation for the period prior to the settlement of the IPO on April 26, 2007.<sup>(1)</sup> The EPS of \$0.48 shown in the Financial Statements of TFG covers the period from April 26, 2007 through year-end.

Performance Metrics and Drivers				
Performance Metrics	Q1 2007	Q2 2007	Q3 2007	Q4 2007
Pre IPO Return - Class C Shares	3.7%	N/A	N/A	N/A
Return on Average Equity for the Period	4.7%	3.5%	3.6%	(1.2%)
EPS (\$)	\$0.35	\$0.33	\$0.37	(\$0.11)
Dividend (\$MM)	N/A	\$18.80 <sup>(2)</sup>	\$18.90 <sup>(3)</sup>	\$18.91 <sup>(4)</sup>
DPS (\$)	N/A	\$0.15	\$0.15	\$0.15
Operating Cost - Income Ratio <sup>(5)</sup>	31.4%	29.6%	30.6%	19.2%
Performance Drivers	Q1 2007	Q2 2007	Q3 2007	Q4 2007
Number of Investments	56	65	67	67
Weighted Average IRR on Completed Transactions	16.30%	16.50%	16.39%	16.56%
Leverage at end of Period	1.12	1.08	1.13	1.11
Net Assets (\$MM)	\$989	\$1,265	\$1,294	\$1,264
Number of Shares in Issue (million)	89.1	125.5	125.8	126.1
Net Excess Life-to-Date Loss Reserves (\$MM) <sup>(6)</sup>	(\$38)	(\$61)	(\$89)	(\$106)

Notes:

- (1) January 1, 2007 through April 26, 2007 EPS was derived from illustrative historical TFG Class C share performance, calculated as a change in Net Asset Value per Share during the period of January 1, 2007 through April 26, 2007. This reflects EPS based on the average shares in issue during the month, after translating pre-IPO shares into post-IPO equivalents.
- (2) The dividend for Q2 2007 was declared in July 2007 and the dividend liability was recognized in the Net Assets at that point.
- (3) The dividend for Q3 2007 was declared in October 2007 and the dividend liability was recognized in the Net Assets at that point.
- (4) The dividend for Q4 2007 was declared in February 2008 and the dividend liability was recognized in Net Assets at that point.
- (5) The Operating Cost-Income ratio for Q4 2007 excludes the October 2007 write-down of certain of our investments with exposure to residential mortgage-backed securities in the calculation.
- (6) The net excess life-to-date loss reserve is transaction-specific. It is calculated by subtracting the actual collateral loss for each transaction from the expected collateral loss, where the expected loss is a function of expected collateral size, TFG's loss assumptions and the length of time the investment has been held.

# TETRAGON

## CASH FLOW FROM OPERATIONS

The cash flow summary below reflects a 500% increase in cash inflows from operating activities since 2006. This can be attributed to the continued growth in cash flows from our portfolio as the 2005 and 2006-vintage CLO investments completed their ramp-up processes and began making regular distributions.

<b>Cash Flow From Operations</b>	<b>2007</b>	<b>2006</b>
	MM	MM
Net cash inflow from operating activities	\$120	\$20
Net cash outflows from investing activities	(\$692)	(\$606)
Net cash inflows from financing activities	\$663	\$668
Net increase in cash and short term deposits	\$91	\$82

## NET ASSETS

The consolidated Balance Sheet combines assets and liabilities across the Company. In 2006, TFG and TFG LP had incentive fee liabilities which reduced the consolidated net assets below the level held at the Master Fund level. As of December 31, 2007 all assets and liabilities were held by the Master Fund.

The NAV per share was \$10.03 as of the end of 2007. As a result of the change in the capital structure at the time of the IPO, a comparison with 2006 NAV per share is not considered meaningful.

<b>Consolidated Balance Sheet Summary</b>	<b>2007</b>	<b>2006</b>
	MM	MM
Cash and cash equivalents	\$196	\$118
Investments in CLOs (at fair value)	\$1,447	\$785
Debt	(\$419)	(\$267)
Other Assets / Liabilities	\$40	(\$43)
Equity	\$1,264	\$593

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