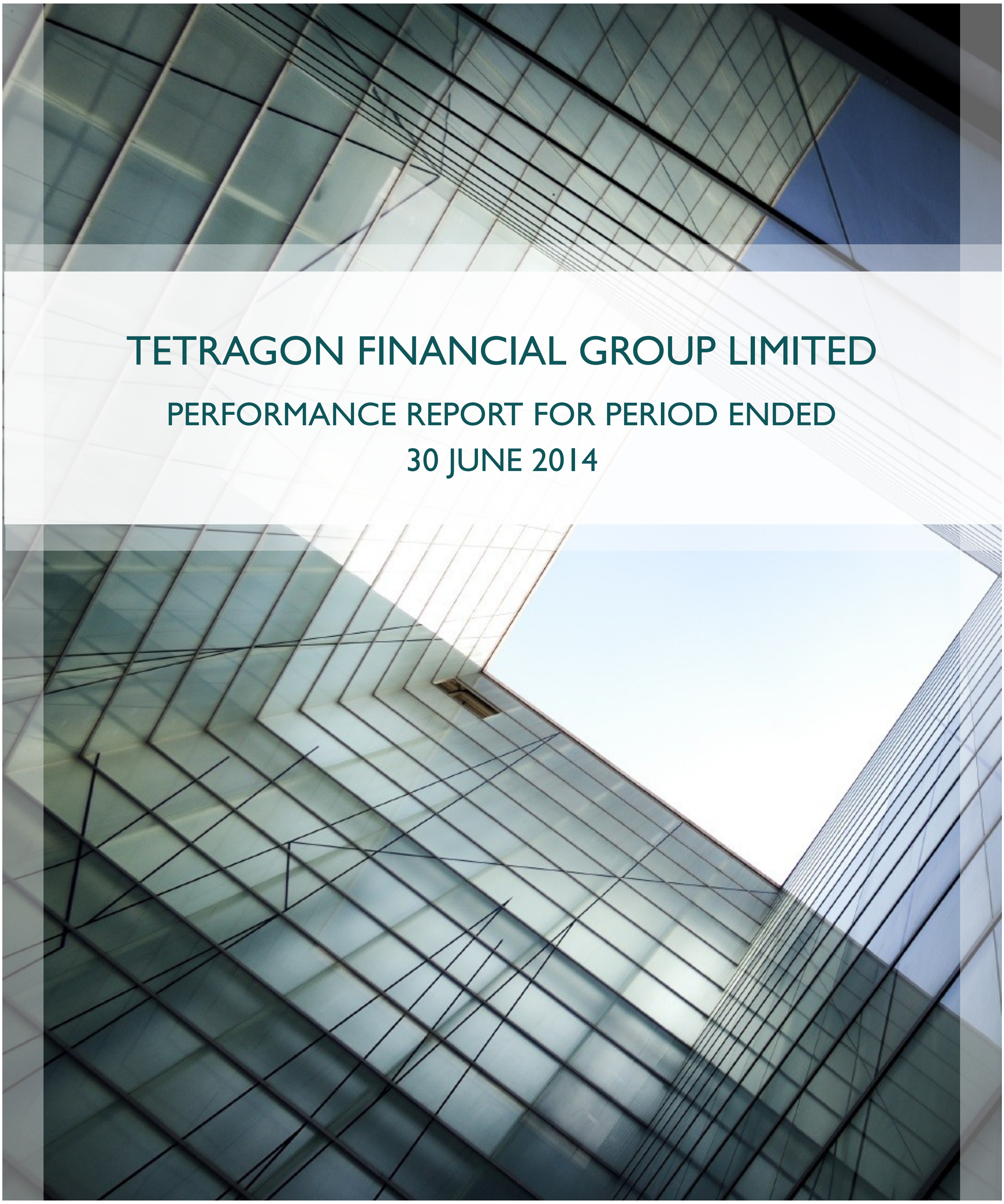
TETRAGON

# TETRAGON FINANCIAL GROUP LIMITED

## PERFORMANCE REPORT FOR PERIOD ENDED 30 JUNE 2014



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# TETRAGON FINANCIAL GROUP LIMITED (TFG)
# PERFORMANCE REPORT FOR PERIOD ENDED 30 JUNE 2014

**31 July 2014**

Tetragon Financial Group Limited ("TFG" or the "company") is a Guernsey closed-ended investment company traded on Euronext Amsterdam N.V. under the ticker symbol "TFG."(1) In this report we provide an update on TFG's results of operations for the period ending 30 June 2014.

## EXECUTIVE SUMMARY AND OUTLOOK

### OVERVIEW

TFG achieved a positive operating and financial performance in the first half of 2014. Net economic income was $86.0 million ($0.90 cents of earnings per share), giving an annualised return on equity ("RoE") of 9.5% (just below the company's over-the-cycle target of 10-15% per annum).(2) Performance was positive in both the company's business segments, namely the investment portfolio and TFG Asset Management. Before tax, the investment portfolio generated $73.6 million of net economic income before tax ($0.77 of earnings per share) and the asset management businesses generated $16.3 million of net economic income before tax ($0.17 of earnings per share).

The Q2 2014 dividend was declared at 15.5 cents per share, giving a rolling 12-month dividend increase of 13.3%.

Returns were particularly strong in Q2 2014 in our U.S. CLO 1.0 transactions(3), where steady underlying performance was supplemented by gains on sales and discount rate reductions, which was a welcome pick up from a somewhat below-average first quarter. The reverse was true in equities, where TFG gave up some of the gains achieved in Q1 2014. TFG Asset Management performed well, with steady AUM growth in all businesses and good fund level performance, which hopefully bodes well for future management and performance fees.

### GOALS

Looking at the company's goals:

**1. To deliver 10-15% RoE *per annum* to shareholders.**(4)

The annualised RoE in the first half of 2014 was 9.5%.

**2. To manage more of TFG's assets on the TFG Asset Management platform in order to reduce the proportion of TFG's capital that pays away fees to third-party managers.**

The amount of TFG's capital that paid fees to external managers at the end of Q2 2014 was 40.1%, down from 53.4% at the end of 2013.(5)

# EXECUTIVE SUMMARY & OUTLOOK (continued)

**3. To grow client AUM and fee income in TFG Asset Management.**

Assets under management ("AUM") at 30 June 2014 stood at $10.5 billion, up from $9.2 billion at 2013 year-end.[(6)]

TFG Asset Management's fee income (including potential hedge fund performance fees that don't crystallise until year end) was $37.7 million, up 17.1% on the same period last year.[(7)]

**4. To add further asset management businesses to the TFG Asset Management platform.**

No new businesses were added in H1 2014, but the Polygon[(i)] distressed business established in 2013 continues on plan, and several new businesses remain under active consideration.

## OUTLOOK

Although the first half results are slightly below our over-the-cycle target, as we have said previously, this might be expected in the current low LIBOR environment. Thus, over the short term, we do not see any material changes as we enter the second half of the year. However, we remain cautiously optimistic for the longer term. The company's portfolio of investments is becoming more diversified and many of its investments are hedged to broad market moves and thus are hopefully less susceptible to the vagaries of market indices. Furthermore, all of TFG Asset Management's contributors – Polygon, LCM[(ii)], and the joint venture with GreenOak[(iii)]– are performing and growing strongly, and thus TFG's strategy of having an investment portfolio and owning asset management businesses in tandem is progressing well.

## INVESTOR DAY

TFG will host its annual investor day in London on 10 September 2014. The event will also be webcast live. The presentations are expected to review TFG's business model, its investment portfolio and its asset management businesses. Further details regarding registration and the agenda will be published closer to the date of the event.

(i) Polygon Global Partners LP and Polygon Global Partners LLP and certain of their affiliates, hereinafter referred to in this report as "Polygon."

(ii) LCM Asset Management LLC, hereinafter referred to in this report as "LCM."

(iii) GreenOak Real Estate, LP, hereinafter referred to in this report as "GreenOak."

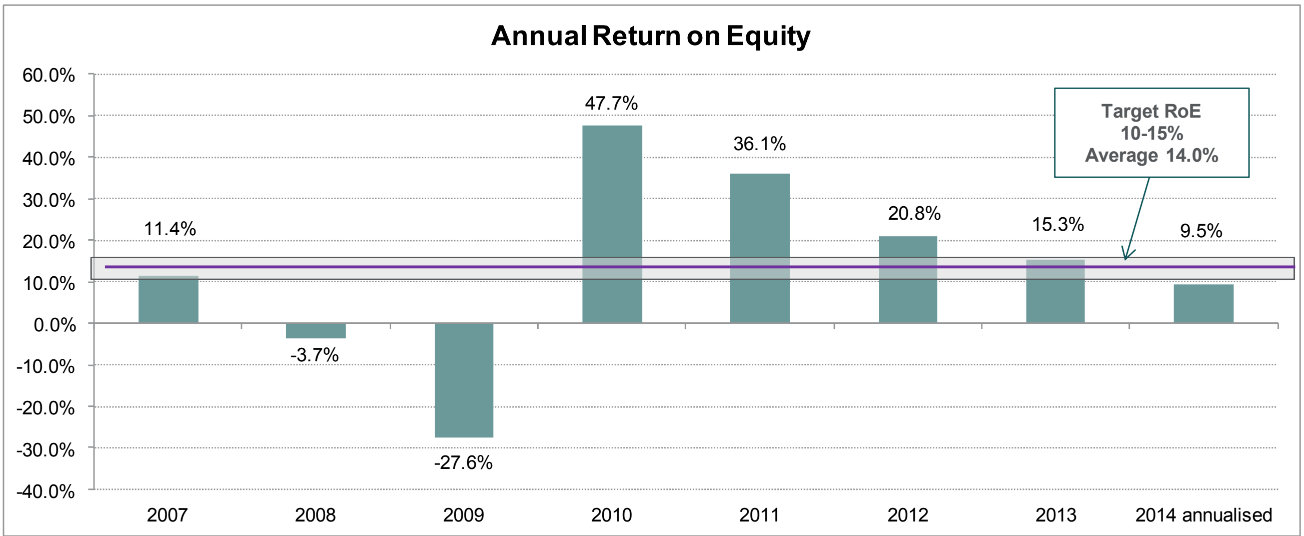
# KEY METRICS

# KEY METRICS

TFG continues to focus on three key metrics when assessing how value is being created for, and delivered to, TFG shareholders: Earnings, Net Asset Value ("NAV") per share and Dividends.

## EARNINGS - RETURN ON EQUITY ("RoE")

- Year to date RoE(8) of 4.8% (9.5% annualised) brings performance slightly below TFG's over-the-cycle target of 10-15% per annum.(9)
- TFG generated Net Economic Income(10) of $86.0 million in the first half of 2014, a fall of 13.6% versus the same period in 2013.
- H1 2014's earnings were particularly affected by six factors:
  - Significant realised gains, mainly as a result of the sale of eight CLO positions during Q2 2014 at values at or above where TFG was carrying them.
  - Unrealised gains on CLO investments as the discount rates used for U.S. CLO 1.0 and European deals were reduced in response to observable data.
  - A continuing reduction in interest income as the CLO portfolio continued to amortise or was sold.
  - Unrealised losses primarily on equity swap positions held on TFG's balance sheet as strong Q1 2014 performance was given back in Q2 2014.
  - Continued AUM growth in TFG Asset Management which led to healthy increases in both management fees and unrealised performance fees. TFG Asset Management contributed approximately $17.8 million of EBITDA equivalent (see Figure 11) in the first half of 2014, an increase of 11.9% over the same period in 2013. In addition, an unrealised write up of TFG's 23% stake in the GreenOak business contributed to TFG Asset Management's below the EBITDA line profits.
  - Realised and unrealised gains generated by TFG's investment in GreenOak-managed real estate assets.

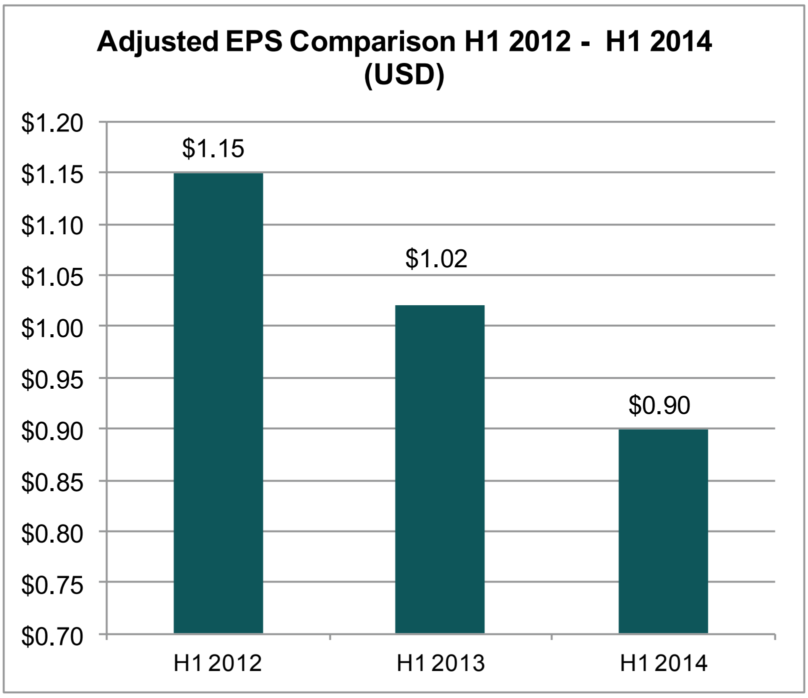


# KEY METRICS

## EARNINGS PER SHARE

- TFG generated an Adjusted EPS[(11)] of $0.90 during H1 2014 (H1 2013: $1.02).

Figure 2



## KEY METRICS

### EARNINGS PER SHARE (continued)

- The further recalibration of discount rates used in modelling the fair value of the U.S. CLO 1.0 and European CLO portfolios, largely in response to sustained reductions in observed risk premia, added approximately $0.27 of EPS out of the $1.00 year-to-date EPS attributable to CLOs, before hedges.
- European CLOs continued their recovery, albeit at a less dramatic rate than was seen in H1 2013.
- Investments in Polygon funds across all asset classes made strong contributions to EPS in H1 2014, although certain direct equity investments, in particular, experienced volatility in Q2 2014, generating unrealised losses which, if our investment theses plays out, we would expect to reverse in the future.
- Real estate contributed $0.11, due to investment performance on the underlying GreenOak funds and investments.

Each of these business dynamics is discussed in more detail later in the report.

Figure 3

| TETRAGON FINANCIAL GROUP<br>TFG Earnings per Share Analysis (H1 2013 - H1 2014) | | |
|---|---|---|
| | **H1 2014** | **H1 2013** |
| **Investment portfolio segment** | | |
| U.S. CLO 1.0 | $0.74 | $0.74 |
| U.S. CLO 2.0 | $0.12 | $0.11 |
| European CLOs | $0.14 | $0.39 |
| U.S. Direct Loans | $0.01 | $0.02 |
| Hedges | ($0.08) | $0.05 |
| | | |
| Polygon Equity Funds | $0.12 | $0.01 |
| Polygon Credit, Convertibles & Distressed Funds | $0.11 | $0.01 |
| Other Equities, Credit, Convertibles, Distressed | ($0.07) | - |
| | | |
| Real Estate | $0.11 | $0.02 |
| | | |
| FX and Options | ($0.02) | ($0.02) |
| Expenses | ($0.41) | ($0.39) |
| **Net EPS investment portfolio** | **$0.77** | **$0.94** |
| **Asset Management Segment - TFG AM** | **$0.17** | **$0.11** |
| Corporate Income taxes | ($0.04) | ($0.03) |
| **Adjusted EPS** | **$0.90** | **$1.02** |
| Weighted Average Shares (millions)[(i)] | 96.0 | 98.0 |

(i) The time-weighted average daily U.S. GAAP Shares outstanding during the applicable year.

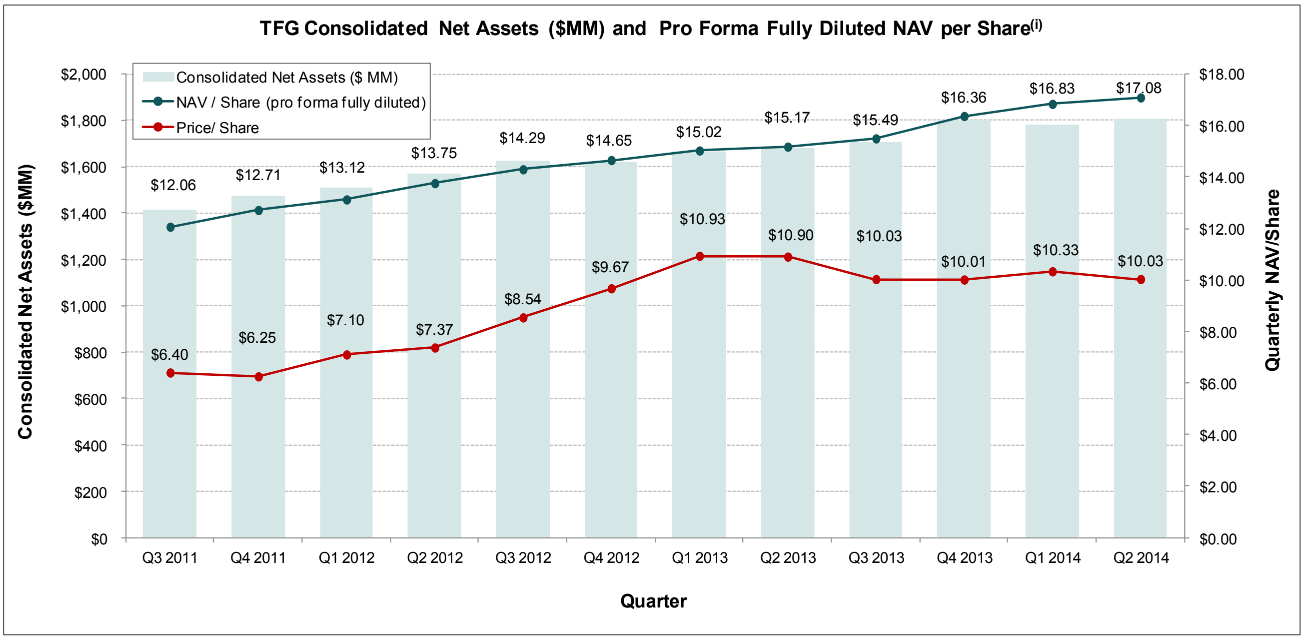
# KEY METRICS

## NAV PER SHARE

### Pro Forma Fully Diluted NAV per Share ended the quarter at $17.08.

- Total NAV increased to $1,808.5 million which equated to Pro Forma Fully Diluted NAV per Share[12] of $17.08, another historic high for TFG.

Figure 4




(i) Pro Forma Fully Diluted NAV per share based on TFG's financial statements as of the relevant quarter-end date; TFG's closing share price data as per Bloomberg as of the last trading day of each quarter. Please note that the Pro Forma Fully Diluted NAV per Share reported as of each quarter-end date excludes any shares held in treasury or in a subsidiary as of that date, but includes (1) shares held in escrow, which are expected to be released and incorporated into the U.S. GAAP NAV per Share over a five-year period, and (2) the number of shares corresponding to the applicable intrinsic value of the options issued to the Investment Manager at the time of the company's IPO.

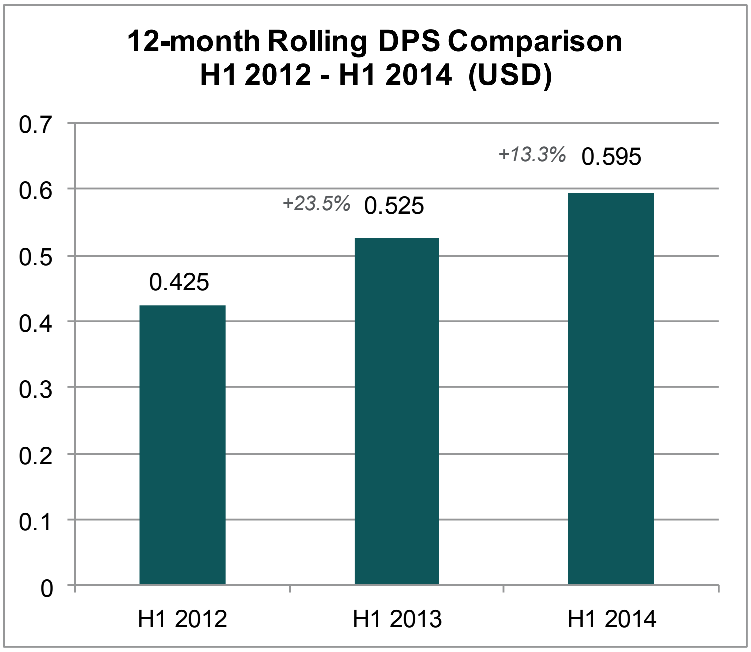
# KEY METRICS

## DISTRIBUTIONS

**Dividends per Share ("DPS"): TFG declared a Q2 2014 DPS of $0.155, up from $0.15 in Q1 2014. On a rolling 12-month basis, the dividend of $0.595 represents a 13.3% increase over the preceding four quarters.**

- TFG continues to pursue a progressive dividend policy with a target payout ratio of 30-50% of normalised earnings, recognising the long-term target RoE of 10-15%.(13) The Q2 2014 DPS of $0.155 brings the cumulative DPS since TFG's IPO to $3.13.
- In the most recent quarterly dividend paid, approximately 6.9% of shareholders elected to take shares rather than cash, pursuant to the company's optional stock dividend program. In addition, holders of escrow shares received in connection with the Polygon transaction also receive dividends on such shares in the form of TFG stock in lieu of cash dividends.

Figure 5



# CASH FLOWS &
# USES OF CASH

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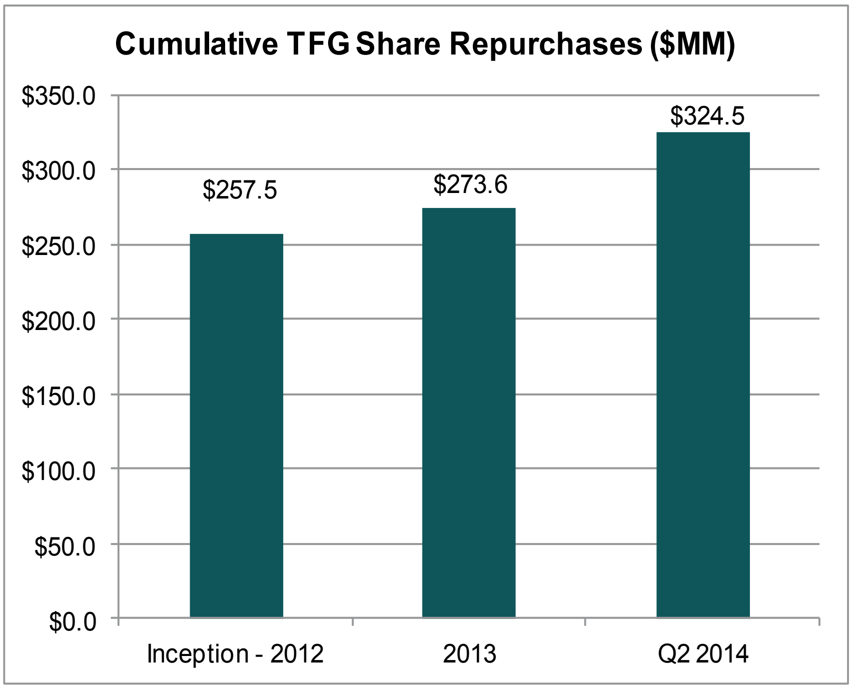
## CASH FLOWS AND USES OF CASH

TFG's cash flows from operations decreased by 28.1% in the first half of 2014 compared with the same period of 2013, to $131.8 million. Cash flows generated by the CLO portfolio continued to be the primary source of operating cash although at $193.3 million, they decreased by 18.7% compared to the same period in 2013. This reflected, among other things, the deleveraging of much of the U.S. CLO 1.0 portfolio as well as the sale of some deals, both of which are discussed further in the investment portfolio section.

TFG took advantage of a buoyant level of market interest in CLO equity during Q2 2014 to sell $153.1(14) million of CLO equity interests at or above their carrying value. Sales were focused mainly on U.S. CLO 1.0 deals, but also included a European deal. TFG also invested $63.6 million into the equity tranches of new CLO issues in the first half of 2014, a 39.8% increase on the equivalent prior period, as LCM closed two significant deals during the period. TFG's investments in other asset classes – specifically equities, credit and convertible bonds primarily via Polygon-branded in-house managed funds – remained broadly unchanged in Q2 2014. TFG received distributions from certain GreenOak-managed vehicles following the sale of certain real estate assets in Japan and the United States, but overall, made net investments into real estate vehicles of $23.4 million during the period.

TFG's direct loan portfolio was reduced further in H1 2014, with the year to date net cash flows from net sales of loans totalling $11.1 million. TFG utilised $27.3 million to pay cash dividends net of stock dividends in the first half of the year compared with $24.1 million in the equivalent period in 2013. No further share buybacks were undertaken in Q2 2014 to add to the tender offer conducted in Q1 2014, which resulted in a cash outflow of $50.9 million, including applicable fees and expenses.

Figure 6




At the end of Q2 2014, TFG's investible cash balance was $225.7 million, approximately 12.5% of net assets, a slight increase as a percentage compared with the balance at the end of 2013.

# TFG'S BUSINESS SEGMENTS

## INVESTMENT PORTFOLIO

## &

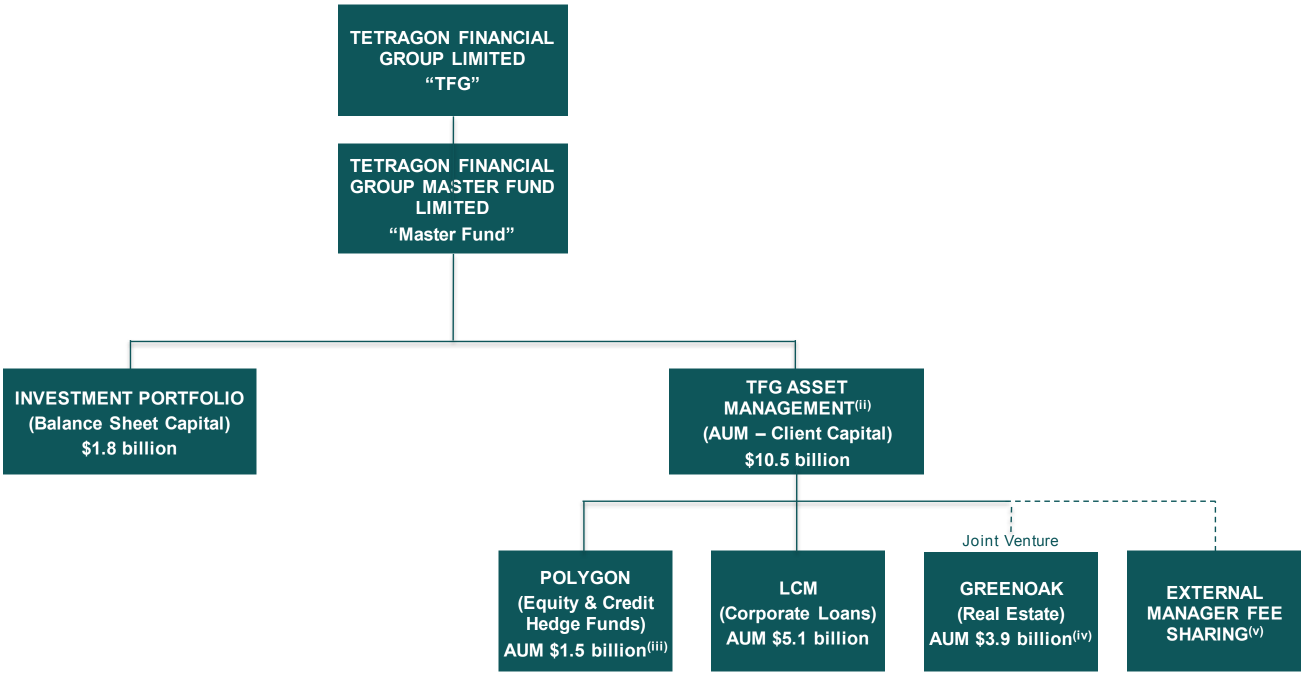
## TFG ASSET MANAGEMENT

# TFG'S BUSINESS SEGMENTS

## TFG STRUCTURE OVERVIEW

TFG owns 1) an investment portfolio of $1.8 billion of financial assets and 2) TFG Asset Management, a global alternative asset management business with $10.5 billion of client assets under management. Investors may find the below chart useful to better understand the company's structure.

Figure 7(i)




(i) This chart is a simplification of TFG's corporate structure and governance. Further information on the organisational structure and corporate governance of TFG can be found at www.tetragoninv.com.

(ii) AUM for TFG Asset Management includes, where relevant, investments by Tetragon Financial Group Master Fund Limited.

(iii) AUM for Polygon Recovery Fund LP, Polygon Convertible Opportunity Master Fund, Polygon European Equity Opportunity Master Fund and associated managed account, Polygon Mining Opportunity Master Fund, Polygon Distressed Opportunities Master Fund and Polygon Global Equities Master Fund, as calculated by the applicable fund administrator at 30 June 2014. Includes, where relevant, investments by Tetragon Financial Group Master Fund Limited.

(iv) Includes investment funds and advisory assets managed by GreenOak Real Estate, LP (a separately registered investment adviser with the U.S. Securities and Exchange Commission) at 30 June 2014. TFG owns a 23% stake in GreenOak.

(v) TFG currently receives asset management fee income derived from a number of one-off and long-term fee sharing arrangements with third-parties.

# INVESTMENT PORTFOLIO

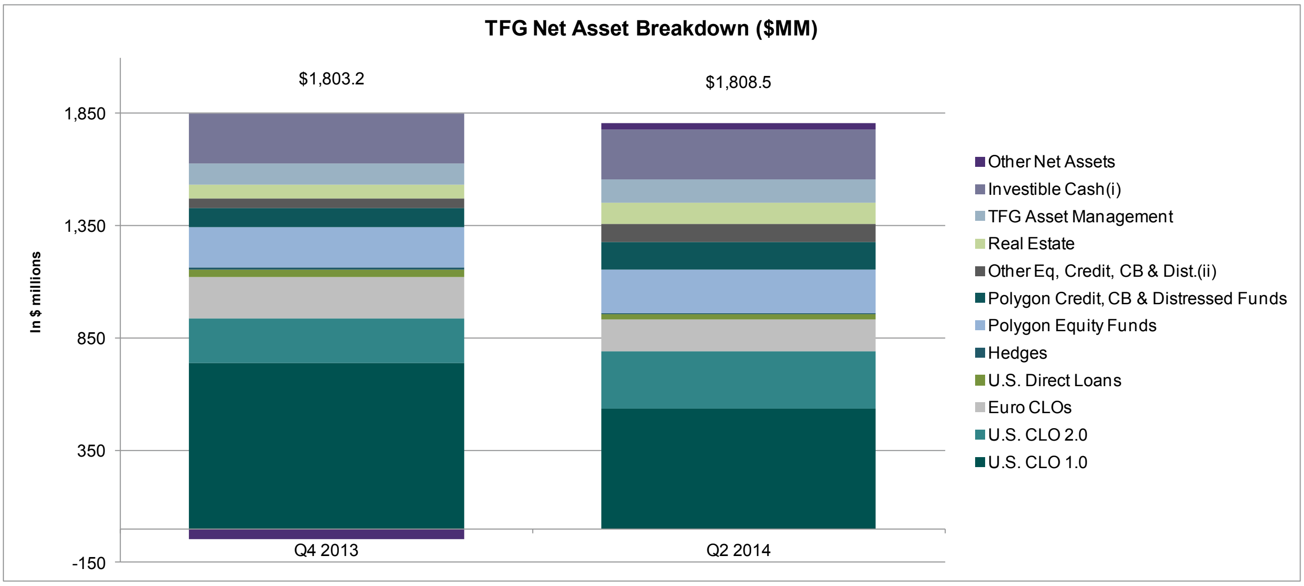
## INVESTMENT PORTFOLIO OVERVIEW

TFG's investment portfolio posted positive overall performance during the first half of 2014 (details in Figure 9). Corporate Loan investments (primarily accessed via CLO equity) had a good second quarter, picking up from a slow first quarter. Polygon-managed equity funds gave back a small amount in Q2 2014 after a very strong Q1, as did other equity trades on the balance sheet. Polygon-managed convertible and distressed funds had a strong Q2 following on from a good Q1. The real estate assets also had a strong first half to the year.

## PORTFOLIO COMPOSITION AND OUTLOOK

TFG's net assets totaled $1,808.5 million at the end of Q2 2014. The following chart shows the composition of TFG's net assets by asset class for Q2 2014 and Q4 2013.

Figure 8




(i) Investible Cash consists of: (1) cash held directly by Tetragon Financial Group Master Fund Limited, (2) excess margin held by brokers associated with assets held directly by Tetragon Financial Group Master Fund Limited, and (3) cash held in certain designated accounts related to TFG's investments, which may only be used for designated purposes without incurring significant tax and transfer costs.

(ii) Assets characterised as "Other Equities, Credit, Convertibles, and Distressed" consist of the fair value of, or capital committed to, investment assets held directly on the balance sheet.

# INVESTMENT PORTFOLIO

The following table summarizes certain performance metrics for each asset class in TFG's investment portfolio.

Figure 9

| Asset Type | H1 2014 Net Assets (in $MM) | Income[iv] in H1 2014 (in $MM) |
|---|---|---|
| **U.S. CLO 1.0[i]** | $535.9 | $71.2 |
| **U.S. CLO 2.0[i]** | $252.3 | $11.4 |
| **European CLOs** | $145.1 | $13.2 |
| **U.S. Direct Loans** | $24.7 | $0.6 |
| **Hedges[ii]** | $4.5 | ($7.6) |
| | | |
| **Polygon Equity Funds** | $192.6 | $11.5 |
| **Polygon Credit, Convertibles & Distressed Funds** | $120.2 | $11.0 |
| **Other Equities, Credit, Convertibles & Distressed[iii]** | $84.4 | ($6.9) |
| | | |
| **Real Estate** | $95.1 | $10.2 |

(i) "U.S. CLO 1.0" refers to U.S. CLOs issued before or during 2008. "U.S. CLO 2.0" refers to U.S. CLOs issued after 2008.

(ii) "Hedges" refers to interest rate swaption hedges put in place in relation to certain interest rate risks relating to the CLO portfolio.

(iii) Assets characterised as "Other Equities, Credit, Convertibles, Distressed" consist of the fair value of, or capital committed to, investment assets held directly on the balance sheet.

(iv) "Income" refers to the total income generated by each category in the quarter including where applicable, realised and unrealised gains and losses as well interest income, dividends and certain associated direct expenses such as interest expense on swaps.

# INVESTMENT PORTFOLIO

## CORPORATE LOANS

TFG's exposure to the corporate loan asset class (whether held directly or indirectly via CLO equity investments) remained diversified, and at the end of Q2 2014 comprised 76.3% in U.S. broadly-syndicated senior secured loans, 8.5% in U.S. middle-market senior secured loans and 15.2% in European senior secured loans.(15)

TFG's CLO equity investments, which comprise the majority of its exposure to corporate loan assets, represented indirect exposure to approximately $12.6 billion par value of underlying collateral.(16)

When reporting on our corporate loan exposures, we find it useful to further segment such investments into the following classes:

- U.S. CLO 1.0;
- U.S. CLO 2.0;
- European CLOs; and
- U.S. Direct Loans.

## U.S. CLO 1.0

As of the end of Q2 2014, TFG held 44 U.S. CLO 1.0 equity investments and one investment in the debt tranche of a U.S. CLO 1.0 transaction.(17) All U.S. CLO 1.0 holdings were passing their junior -most O/C tests as of the end of the second quarter.(18)

During Q2 2014, the company sold seven equity tranche investments in U.S. CLO 1.0 transactions. We believe that the sales prices achieved were attractive taking into account, among other factors, the deals' expected future returns, as well as collateral-related risks of increased concentration and market value volatility upon liquidation. TFG may look to sell additional U.S. CLO 1.0 positions in the future as we continue to evaluate the expected risk/reward profile of those investments and alternate uses of our capital.

Earnings were also enhanced by the reduction of discount rates applied to the future projected cash flows of TFG's U.S. CLO 1.0 and European CLOs (see Appendix II "Fair Value Determination of TFG's CLO Equity Investments" for additional details).

Aside from the aforementioned asset sales, the wind-down pace of TFG's U.S. CLO 1.0 portfolio accelerated during the quarter, reflecting both loan repayments and certain managers' asset sales taking advantage of strong loan market conditions. During Q2 2014, one of TFG's earliest U.S. CLO 1.0 investments was successfully liquidated with net portfolio proceeds distributed to equity holders. As of the writing of this report, a number of TFG's U.S. CLO 1.0 transactions are at various stages of their unwind processes. We expect this segment to continue to amortise over the following quarters both via structural de-leveraging and equity investor or manager-directed optional redemptions.

# INVESTMENT PORTFOLIO

## U.S. CLO 2.0

As of the end of Q2 2014, TFG held 13 equity investments in U.S. CLO 2.0 deals, up from 12 investments at the end of Q1 2014, as TFG took a majority equity investment in a new LCM-managed CLO. All of TFG's U.S. CLO 2.0 transactions were in compliance with their junior-most O/C tests as of the end of Q2 2014.(19)

Despite the fact that the CLO equity arbitrage environment remains challenging due to relatively tight corporate loan spreads and stagnant CLO liability funding costs, we continue to believe that CLO 2.0 equity investments in deals managed by LCM offer attractive risk-adjusted returns as fees generated by LCM on third-party capital managed within the CLOs increase TFG's blended return on invested capital.

As stated in our Q1 2014 quarterly report, TFG successfully refinanced all of the debt tranches of LCM X in April 2014. Since then, the company has begun work on additional refinancing opportunities, which may lead to lower debt financing costs of other CLO 2.0 investments and therefore potentially increase the returns of TFG's equity tranche investments.

## EUROPEAN CLOs

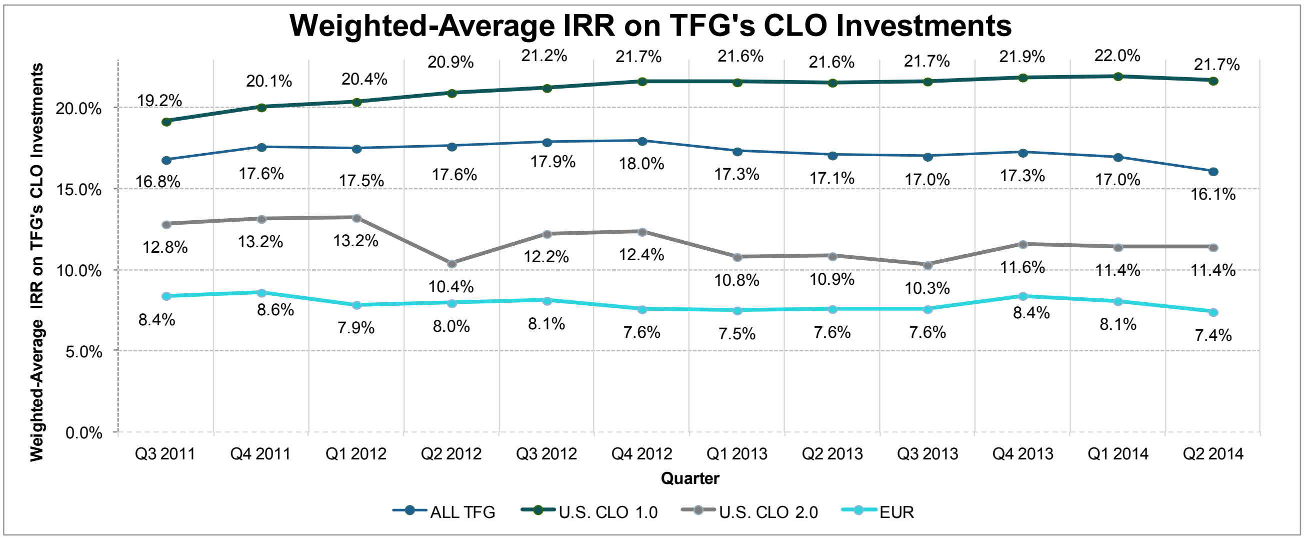
As of the end of Q2 2014, TFG held equity investments in nine European CLOs, compared to 10 in the Q1 2014 due to the sale of one transaction during the quarter. Similar to the sales of our U.S. CLO 1.0 deals, we believe the sale of this European CLO investment was made at an attractive price relative to our expectations of future returns. TFG may look to sell additional European CLO investments in the future as the company continues to assess alternate uses of its capital.

As above, earnings were also enhanced by the reduction of discount rates applied to the future projected cash flows of TFG's European CLOs (see Appendix II "Fair Value Determination of TFG's CLO Equity Investments" for additional details).

As of the end of Q2 2014, all of TFG's European CLO investments were passing their junior-most O/C tests.(20)

The following graph shows the evolution of TFG's CLO equity investment IRRs over the past three years.

Figure 10



# INVESTMENT PORTFOLIO

## DIRECT LOANS

TFG's direct loan portfolio performed well during Q2 2014, although its size was reduced to $24.7 million as a number of underlying loans were repaid, refinanced, or sold. The credit quality of this portfolio remained stable during the quarter and there continued to be no defaults. In the short term, the company does not expect to allocate additional capital to this strategy due to the existence of what we believe are more attractive alternative uses of company funds.

## POLYGON EQUITY FUNDS

As of the end of Q2 2014, TFG had $192.6 million invested in Polygon-managed equity hedge fund products. Performance in all of these strategies was positive in H1 2014. Further details on performance can be found in the TFG Asset Management section of this report and in Figure 15.

## POLYGON CREDIT, CONVERTIBLE & DISTRESSED FUNDS

All investments delivered positive returns for the quarter. Of note was the performance of the Polygon convertible strategy, which benefited from its more idiosyncratic return profile. During H1 2014, the strategy returned 12.6% net in its flagship A share class.(21) TFG invests in Polygon funds on preferential fee terms.

## OTHER EQUITY, CREDIT, CONVERTIBLE AND DISTRESSED

TFG also invests directly in equities, convertible bonds and credit instruments. Some of these opportunities have arisen in part from TFG's ownership of Polygon and resulting access to new opportunities. TFG may invest in opportunities directly from its balance sheet rather than through, for example, investments in other funds or collective investment schemes, when it sees an opportunity that fits its investment criteria, particularly where our structuring ability and the company's long duration capital may give it a potential investment advantage. In some cases, TFG may also have exposure to the investment indirectly through fund investments. TFG experienced losses in Q2 2014 after a profitable Q1 2014 in this segment of its portfolio.

## REAL ESTATE

During H1 2014, TFG registered $10.2 million of net income from GreenOak-managed real estate funds and vehicles. Although TFG made additional investments in the quarter into certain funds (with the bulk of new investments occurring in Japan-focused funds), TFG saw a significant amount of capital returned across all of the geographies (the United States, Europe, and Japan), reflecting the profitable sales of certain underlying assets.

## HEDGING ACTIVITY AND OTHER MATTERS

TFG had no direct credit hedges in place at the end of Q2 2014, but employed certain foreign exchange rate and "tail risk" interest rate hedges to seek to mitigate its exposure to Euro-USD foreign exchange risk and a potential significant increase in inflation and/or nominal interest rates in the United States, respectively. These hedges lost money during H1 2014. TFG reviews the hedging strategy on an ongoing basis as the company seeks to address identified risks to the extent practicable and in a cost-effective manner.

# TFG ASSET MANAGEMENT

## OVERVIEW

TFG Asset Management comprises the fee income-generating areas of TFG's portfolio: management and performance fees from related and external asset managers.[22]

The three related asset management businesses, LCM, Polygon and the GreenOak joint venture, continued to perform well through the end of June 2014.

## UPDATE ON KEY METRICS

- **Performance of the underlying strategies:** performance of the various strategies managed by TFG Asset Management's business segments remained strong in the first half of 2014.
- **Gross revenues:** composed primarily of management and performance fees from clients, totalled $33.0 million in H1 2014. If one includes the unrealised performance fees within the Polygon hedge funds (which may only crystallise at year end) then total fee income is $37.7 million versus $32.2 million for the same period last year.[23] As with 2013, the Q2 2014 fee income line was boosted by certain performance and management fees which are periodic in nature. From a quality of earnings perspective, we are pleased that the recurring management fees have grown strongly as a percentage of the total fee income.
- **"EBITDA equivalent"** (as described below): totalled $17.8 million in H1 2014, versus $15.9 million in H1 2013.

Figure 11

| TETRAGON FINANCIAL GROUP<br>TFG Asset Management Statement of Operations H1 2014 vs. H1 2013 | | |
|---|---|---|
| | **H1 2014 $MM** | **H1 2013 $MM** |
| Fee income(i) | 33.0 | 30.7 |
| Unrealised Polygon performance fees(ii) | 4.7 | 1.5 |
| Interest income | 0.1 | 0.1 |
| **Total income** | **37.8** | **32.3** |
| Operating, employee and administrative expenses(i) | (20.0) | (16.4) |
| **Net income - "EBITDA equivalent"** | **17.8** | **15.9** |
| Unrealised gain on asset management stake(iii) | 5.7 | - |
| Performance fee allocation to TFM | (3.8) | (2.0) |
| Amortisation expense on management contracts | (3.4) | (3.4) |
| **Net economic income before taxes** | **16.3** | **10.5** |

(i) Nets off cost of recovery on "Other fee income" against this cost contained in "Operating, employee, and administrative expenses." Operating costs also removes amortisation from the U.S. GAAP segmental report. Fee income includes amounts earned through third-party fee sharing arrangements. It also includes any fees earned through fees paid on investments made by TFG in Polygon hedge funds or other investment vehicles. TFG is able to invest at a preferred level of fees.

(ii) Unrealised Polygon performance fees represent the fees calculated by the applicable administrator of the relevant Polygon funds, in accordance with the applicable fund constitutional documents, when determining NAV at quarter end, less certain assumed costs. Similar amounts, if any, from LCM and GreenOak are excluded from this line item. Such fees would typically not be realised or recognised under U.S. GAAP until calendar year end, and are therefore subject to change based on fund performance during the remainder of the year. There are can be no assurance that the company will realise all or any portion of such amounts. Through 30 June 2014, this amount equalled $4.7 million before (1) an assumed imputed tax charge and (2) estimated TFM performance fees reduced the net contribution to $2.5 million as shown in Figure 11 and further represented in Figures 18 and 19 of this report. It also includes any unrealised performance fees to potentially be paid on investments made by TFG in Polygon hedge funds or other investment vehicles. TFG is able to invest at a preferred level of fees.

(iii) Unrealised gain generated by a recalibration of the fair value of the 23% stake held in GreenOak. For accounting purposes TFG treats this stake as an investment carried at fair value rather than consolidating the underlying net assets and net income of this business.

# TFG ASSET MANAGEMENT

## ASSET MANAGEMENT BUSINESSES

AUM for LCM, Polygon and the GreenOak joint venture are shown below at 30 June 2014.

Figure 12

| Summary of TFG Asset Management AUM ($BN) | | |
|---|---|---|
| **Business** | **30 June 2014** | **31 March 2014** |
| **LCM** | **$ 5.1** | **$ 4.9** |
| **GreenOak** (i) | **$ 3.9** | **$ 4.1** |
| **Polygon** (ii) | **$ 1.5** | **$ 1.4** |
| **Total** | **$ 10.5** | **$ 10.4** |

(i) Includes funds and advisory assets managed by GreenOak Real Estate, LP, a separately registered investment adviser with the U.S. Securities and Exchange Commission. TFG owns a 23% interest in GreenOak.

(ii) AUM for Polygon Recovery Fund LP, Polygon Convertible Opportunity Master Fund, Polygon European Equity Opportunity Master Fund and associated managed account, Polygon Mining Opportunity Master Fund, Polygon Global Equities Master Fund, and Polygon Distressed Opportunities Master Fund, as calculated by the applicable fund administrator. Includes, where relevant, investments by Tetragon Financial Group Master Fund Limited.

On the following pages are some brief updates on each of TFG Asset Management's businesses.

# TFG ASSET MANAGEMENT

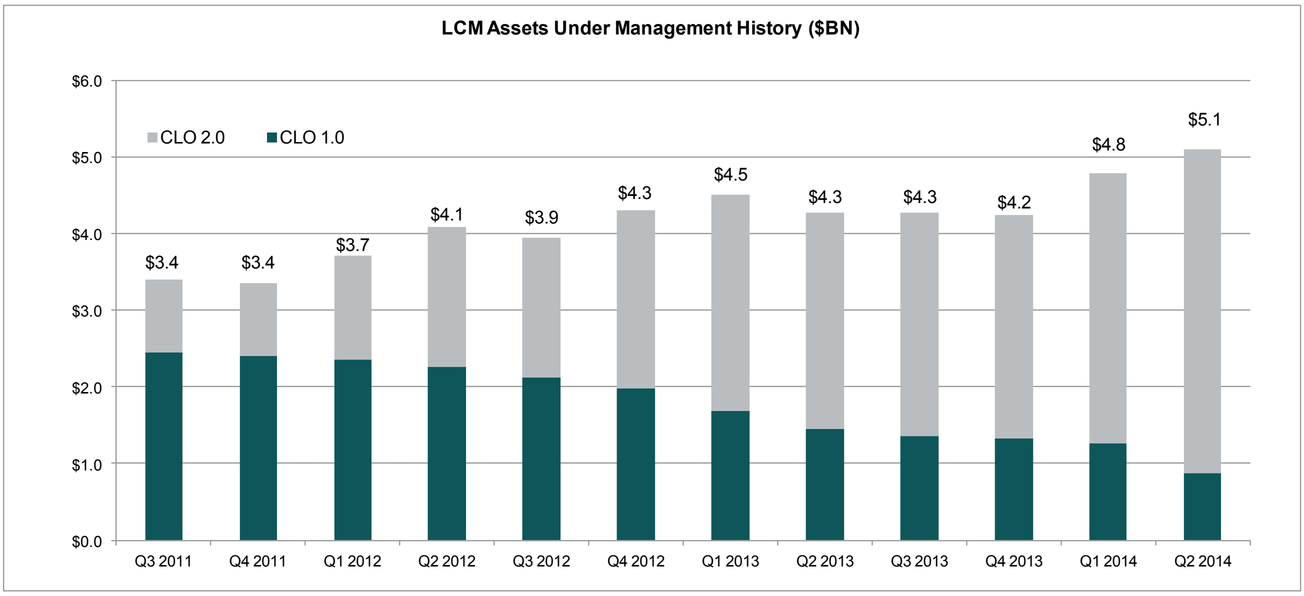
## LCM

LCM is a specialist in below-investment grade U.S. broadly-syndicated leveraged loans that was established in 2001. Farboud Tavangar is the senior portfolio manager.

LCM continued to perform well in Q2 2014, with all of LCM's Cash Flow CLOs[(24)] that were still within their reinvestment periods continuing to pay senior and subordinated management fees.

At 30 June 2014, LCM's total CLO loan assets under management stood at approximately $5.1 billion. During H1 2014, the following activity occurred: LCM XV, a $624.0 million CLO, closed on 25 February 2014; LCM XVI, a $725.6 million CLO priced on 13 May 2014, and was the largest deal issued by LCM to date. LCM III was redeemed during H1 2014 and has no assets or notes outstanding. LCM managed 12 CLOs at 30 June 2014.

Figure 13



# TFG ASSET MANAGEMENT

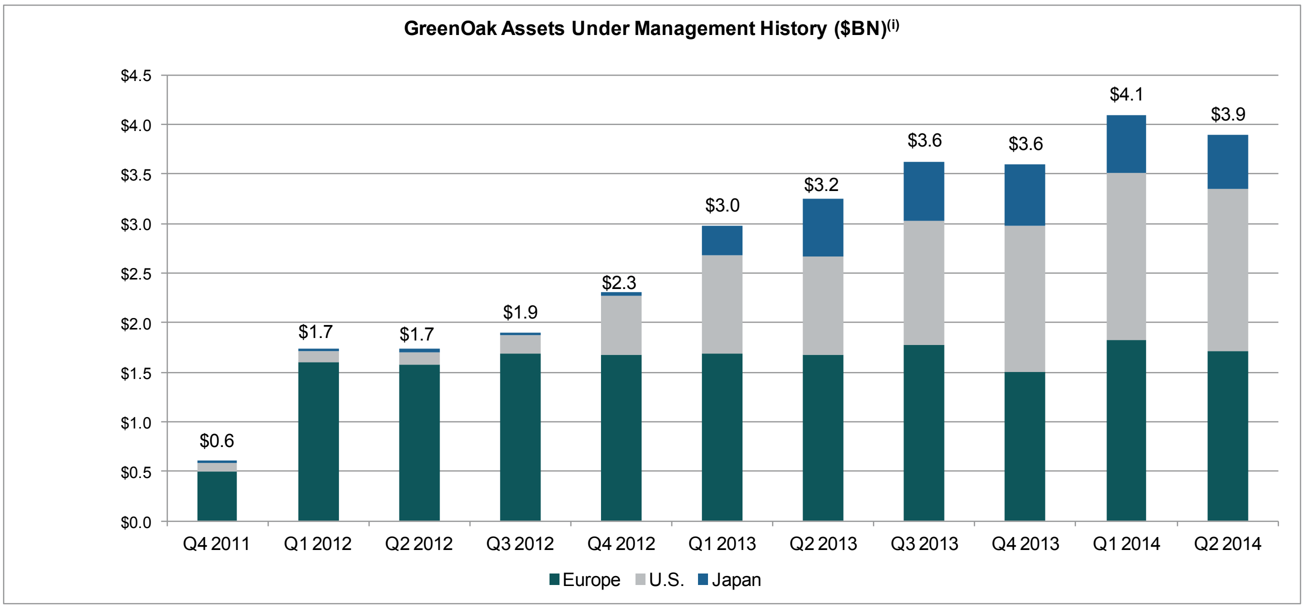
## GREENOAK JOINT VENTURE

GreenOak is a real estate-focused principal investing and advisory firm established in 2010. The Principals and Founders are John Carrafiell, Sonny Kalsi and Fred Schmidt.

During H1 2014, GreenOak continued to execute on its strategy with respect to its funds and its advisory assignments on behalf of select strategic clients with mandates in Europe, Japan and the United States. In particular, its second U.S. Fund is currently raising capital ahead of its target amount and potentially may be completed near the end of this summer.

At 30 June 2014, assets under management totalled approximately $3.9 billion.

Figure 14




(i) Assets under management include all third-party interests and total projected capital investment costs.

# TFG ASSET MANAGEMENT

## POLYGON

Total AUM for the Polygon funds was approximately $1.5 billion at 30 June 2014. The strategies all had positive returns in H1 2014 and two of the strategies now have a five-year track record since inception. AUM in the open hedge fund strategies rose to approximately $1.1 billion, an increase of 27.9% compared to the AUM in these vehicles at 31 December 2013.

Figure 15

| Summary of Polygon Funds Assets Under Management ($ MM) | | | |
|---|---|---|---|
| **Fund** | **30 Jun 2014** | **2014 Net Performance** | **Annualised Net LTD Performance** |
| **European Event-Driven Equity(i)** | **$ 542.3** | **6.8%** | **14.8%** |
| **Convertibles(ii)** | **$ 381.9** | **12.6%** | **21.2%** |
| **Mining Equities(iii)** | **$ 69.7** | **4.3%** | **4.1%** |
| **Distressed Opportunities(iv)** | **$ 79.0** | **7.7%** | **14.6%** |
| **Other Equity(v)** | **$ 21.1** | **11.7%** | **18.0%** |
| **Total AUM - Open Funds** | **$ 1,094.0** | | |
| **Private Equity Vehicle(vi)** | **$ 428.9** | **0.1%** | **5.6%** |
| **Total AUM** | **$ 1,522.9** | | |

(i) The fund began trading 8 July 2009 with Class B shares which carry no incentive fee. Class A shares commenced trading on 1 December 2009. Returns from inception through November 2009 for Class A shares have been *pro forma* adjusted to match the fund's Class A share terms as set forth in the Offering Memorandum (1.5% management fee, 20% incentive fee and other items, in each case, as set forth in the offering Memorandum). From December 2009 to February 2011, the table reflects actual Class A share performance on the terms set forth in the Offering Memorandum. From March 2011, forward, the table reflects actual Class A1 share performance on the terms set forth in the Offering Memorandum. Class A1 share performance is equivalent to Class A share performance for prior periods. AUM figure and net performance is for the Polygon European Equity Opportunity Master Fund and associated managed account as calculated by the applicable fund administrators.

(ii) The fund began trading with Class B shares, which carry no incentive fees, on 20 May 2009. Class A shares of the fund were first issued on 1 April 2010 and returns from inception through March 2010 have been *pro forma* adjusted to match the fund's Class A share terms as set forth in the Offering Memorandum (1.5% management fee, 20% incentive fee over a hurdle and other items, in each case, as set forth in the Offering Memorandum). AUM figure and net performance is for the Polygon Convertible Opportunity Master Fund as calculated by the applicable fund administrator.

(iii) The fund began trading with Class B1 shares, which carry no incentive fees, on 1 June 2012. Returns through October 2013 have been *pro forma* adjusted to account for a 2.0% management fee, a 20% incentive fee, and non trading expenses capped at 1%, in each case, as set forth in the Offering Memorandum. Class A1 shares of the Fund were first issued on 1 November 2013. From November 2013, forward, performance reflects actual Class A1 share performance on the terms set forth in the Offering Memorandum. AUM figure and net performance is for the Polygon Mining Opportunity Master Fund as calculated by the applicable fund administrator.

(iv) The fund's inception was on 2 September 2013. Returns shown are for Class A shares reflecting the terms set forth in the offering documents (2.0% management fee, 20% incentive fee and other items, in each case, as set forth in the offering documents). AUM figure and net performance is for the Polygon Distressed Opportunities Master Fund as calculated by the applicable fund administrator.

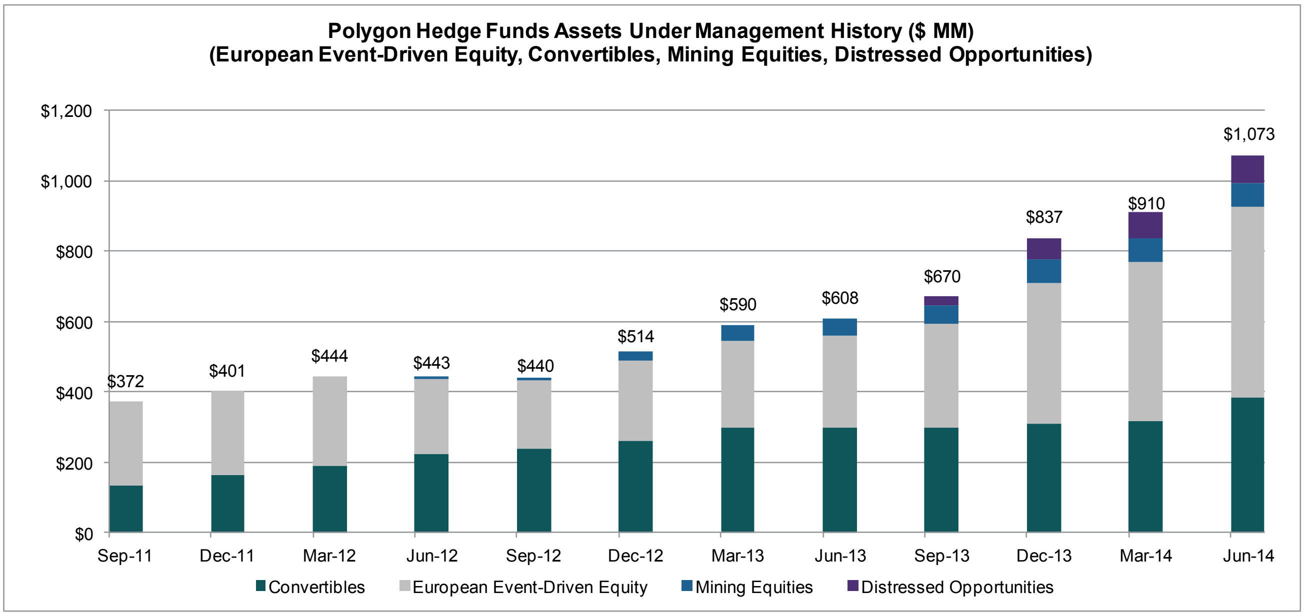
(v) The fund began trading with Class B/B1 shares, which carry no incentive fees, on 12 September 2011. Returns shown from inception through August 2013 have been *pro forma* adjusted to account for a 2.0% management fee and a 20% incentive fee, in each case, as to be set forth in further definitive documents. The fund began trading Class A shares, which are not new issue eligible, on 23 September 2011. Class A1 shares of the Fund, which are new issue eligible, were first issued on 1 November 2013, and returns from inception through October 2013 have been *pro forma* adjusted to match the Fund's Class A1 performance. AUM figure and net performance is as calculated by the applicable fund administrator.

(vi) The Private Equity Vehicle noted above is the Polygon Recovery Fund L.P. ("PRF"). The manager of the PRF is a subsidiary of TFG having been acquired in the Polygon transaction. The management fees earned in respect of PRF are included in the TFG Asset Management business segment described herein. PRF is a limited-life vehicle seeking to dispose of its portfolio securities prior to its initial term expiring in the first half of 2015 – with two additional one-year terms based on performance or investor approval. Individual investor performance will vary based on their high water mark. Currently the majority of Class C share class investors have not reached their high water mark, so their performance is the same as their gross performance. AUM figure and net performance is for PRF as calculated by the applicable fund administrator.

Note: The AUM noted above includes investments in the relevant strategies by TFG, other than in respect of the Private Equity Vehicle, where there is no such investment. The Private Equity vehicle, at the time of the Polygon transaction and currently, remains a closed investment strategy. Past performance or experience (actual or simulated) does not necessarily give a guide for the future and no representation is being made that the funds listed will or are likely to achieve profits or losses similar to those shown. Past performance or experience (actual or simulated) does not necessarily give a guide for the future and no representation is being made that the funds listed will or are likely to achieve profits or losses similar to those shown.

## POLYGON (continued)

Figure 16[i]




(i) All values are as calculated by the applicable fund administrators for value date 30 June 2014.

**Convertibles**: Polygon's convertible strategy invests primarily in convertible securities in Europe and North America and is led by CIO Mike Humphries. During the first half of 2014, the portfolio performed strongly with year-to-date net performance through the end of June 2014 at 12.6%. Annualised net performance since inception in May 2009 has been 21.2%.[25]

Year to date, the portfolio has been able to generate returns through idiosyncratic event-driven trades in the book despite the continuing richness of the broader convertible universe. The portfolio managers believe that there are still many attractive opportunities in these off-the-run names in which they specialize.

Assets under management in this strategy were $381.9 million at 30 June 2014.

**European Event-Driven Equities**: This strategy invests primarily in the major European equity markets, with an Event-Driven focus. Reade Griffith is the CIO.

The portfolio has continued to benefit in 2014 with the stabilisation of European markets and increased corporate activity. The portfolio managers believe that these trends, and improving capital flows to Europe, should continue to create a healthy opportunity set for the strategy for the rest of this year. A renewed interest in the region has also led to new investments into the product from third-party institutional investors. Year-to-date through 30 June 2014, the strategy has returned 6.8%; annualised performance from inception in July 2009 is 14.8%.[26]

Assets under management for the strategy were $542.3 million at 30 June 2014.

# TFG ASSET MANAGEMENT

## POLYGON (continued)

**Mining Equities**: This strategy is led by Mike Humphries and Peter Bell, and focuses primarily in the equities of global mining companies, many of them based on gold.

The strategy posted returns of 4.3% year-to-date through 30 June 2014. The portfolio continues to be long exploration and resource growth-oriented names and short producers of lower-quality gold deposits. Annualised performance from inception through to the end of June 2014 was 4.1%.(27)

Assets under management for the strategy at the end of June 2014 were $69.7 million.

**Distressed Opportunities**: This strategy is led by Olivier Blechner, and focuses on opportunities in companies undergoing, or about to undergo, balance sheet restructuring. The strategy was launched in September 2013. The team continues to build its portfolio and performance track record. Year-to-date through 30 June 2014, the strategy has returned 7.7%.(28)

Assets under management for the strategy at the end of June 2014 were $79.0 million.

**Other Equities**: These investments have returned 11.7% net performance through the end of June 2014. Annualised performance from inception through to the end of June 2014 was 18.0%. Assets under management in this category were $21.1 million at 30 June 2014.(29)

**Private Equity:** Polygon's portfolio of private and less-liquid public assets which are being sold down in a closed-ended investment vehicle had AUM of approximately $428.9 million at 30 June 2014. The fund has returned $375.0 million of cash to its partners since inception in March 2011, including $20.0 million in H1 2014. Year-to-date performance through the end of June was 0.11%.(30) TFG has not invested directly in this product; however, it is the beneficiary of certain contracted management fee income.

## THIRD-PARTY FEE INCOME

In addition to the fee income generated by the three asset management businesses, TFG also currently receives asset management fee income derived from a number of one-off and long-term fee sharing arrangements with third-parties.

# H1 2014
# FINANCIAL REVIEW

# FINANCIAL REVIEW

In this section, we present consolidated financial data incorporating TFG and its 100% subsidiary, Tetragon Financial Group Master Fund Limited, which includes both U.S. GAAP and non-U.S. GAAP metrics.

## FINANCIAL HIGHLIGHTS

Figure 17

| TETRAGON FINANCIAL GROUP<br>Financial Highlights | | | |
|---|---|---|---|
| | H1 2014 | H1 2013 | H1 2012 |
| U.S. GAAP net income ($MM) | $71.9 | $87.4 | $132.6 |
| Net economic income ($MM) | $86.0 | $99.6 | $132.6 |
| U.S. GAAP EPS | $0.75 | $0.89 | $1.15 |
| Adjusted EPS | $0.90 | $1.02 | $1.15 |
| Return on equity | 4.8% | 6.1% | 8.2% |
| Net assets ($MM) | $1,808.5 | $1,680.3 | $1,570.3 |
| U.S. GAAP number of shares outstanding (MM) | 94.2 | 97.6 | 115.0 |
| U.S. GAAP NAV per share | $19.19 | $17.22 | $13.75 |
| Pro Forma number of shares outstanding (MM) | 105.9 | 110.7 | 115.0 |
| Pro Forma fully diluted NAV per share | $17.08 | $15.17 | $13.75 |
| DPS | $0.155 | $0.140 | $0.115 |

We use, among others, the following metrics to understand the progress and performance of the business:

- **Net Economic Income ($86.0 million):** adds back to the U.S. GAAP net income ($71.9 million) the imputed H1 2014 share based employee compensation ($11.5 million), which is generated on an ongoing basis resulting from the Polygon transaction and also includes unrealised net Polygon performance fees[31] ($2.5 million).
- **Return on Equity (4.8%):** Net Economic Income ($86.0 million) divided by Net Assets at the start of the year ($1,803.2 million).
- **Pro Forma Fully Diluted Shares (105.9 million):** adjusts the U.S. GAAP shares outstanding (94.2 million) for the impact of escrow shares used as consideration in the Polygon transaction and associated stock dividends (11.6 million) and for the potential impact of options issued to TFG's investment manager at the time of TFG's IPO (0.0 million).
- **Adjusted EPS ($0.90):** calculated as Net Economic Income ($86.0 million) divided by weighted average U.S. GAAP shares outstanding (96.0 million).
- **Pro Forma Fully Diluted NAV per Share ($17.08):** calculated as Net Assets ($1,808.5 million) divided by Pro Forma Fully Diluted shares (105.9 million).[32]

# FINANCIAL REVIEW

## STATEMENT OF OPERATIONS

Figure 18

| TETRAGON FINANCIAL GROUP<br>Statement of Operations | H1 2014<br>$MM | H1 2013<br>$MM | H1 2012<br>$MM |
|---|---|---|---|
| Interest income | 85.3 | 109.8 | 115.8 |
| Fee income | 33.0 | 30.7 | 11.9 |
| Unrealised Polygon performance fees | 4.7 | 1.5 | - |
| Other income - cost recovery | 11.4 | 10.3 | - |
| **Investment income** | **134.4** | **152.3** | **127.7** |
| Management and performance fees | (33.1) | (37.0) | (47.8) |
| Other operating and administrative expenses | (44.6) | (33.3) | (9.4) |
| **Total operating expenses** | **(77.7)** | **(70.3)** | **(57.2)** |
| | | | |
| **Net investment income** | **56.7** | **82.0** | **70.5** |
| Net change in unrealised appreciation in investments | (33.6) | 9.4 | 68.2 |
| Realised gain on investments | 76.2 | 5.0 | 0.1 |
| Realised and unrealised gains/(losses) from hedging, fx and options | (9.4) | 6.0 | (3.6) |
| **Net realised and unrealised gains from investments and fx** | **33.2** | **20.4** | **64.7** |
| | | | |
| **Net economic income before tax and noncontrolling interest** | **89.9** | **102.4** | **135.2** |
| Income tax | (3.9) | (2.8) | (1.6) |
| Noncontrolling interest | - | - | (1.0) |
| **Net economic income** | **86.0** | **99.6** | **132.6** |

### Performance Fee

A performance fee of $8.1 million was accrued in Q2 2014 in accordance with TFG's investment management agreement and based on a "Reference NAV" of Q1 2014. The total performance fee accrued in H1 2014 was $18.7 million. The hurdle rate for the Q3 2014 incentive fee has been reset at 2.879658% (Q2 2014: 2.875958%) as per the process outlined in TFG's 2013 audited financial statements and in accordance with TFG's investment management agreement.

Please see TFG's website, www.tetragoninv.com, and the 2013 TFG audited financial statements for more details on the calculation of this fee.

# FINANCIAL REVIEW

## STATEMENT OF OPERATIONS BY BUSINESS SEGMENT

Figure 19

| TETRAGON FINANCIAL GROUP<br>Statement of Operations by Segment H1 2014 | | | |
|---|---|---|---|
| | Investment Portfolio $MM | TFG AM $MM | Total $MM |
| Interest income | 85.2 | 0.1 | 85.3 |
| Fee income | - | 33.0 | 33.0 |
| Unrealised Polygon performance fees | - | 4.7 | 4.7 |
| Other income - cost recovery | - | 11.4 | 11.4 |
| **Investment and management fee income** | **85.2** | **49.2** | **134.4** |
| Management and performance fees | (29.3) | (3.8) | (33.1) |
| Other operating and administrative expenses | (9.8) | (34.8) | (44.6) |
| **Total operating expenses** | **(39.1)** | **(38.6)** | **(77.7)** |
| Net change in unrealised appreciation in investments | (39.3) | 5.7 | (33.6) |
| Realised gain on investments | 76.2 | - | 76.2 |
| Realised and unrealised losses from hedging, fx and options | (9.4) | - | (9.4) |
| **Net realised and unrealised gains from investments and fx** | **27.5** | **5.7** | **33.2** |
| | | | |
| **Net economic income before tax** | **73.6** | **16.3** | **89.9** |

# FINANCIAL REVIEW

## BALANCE SHEET

Figure 20

| TETRAGON FINANCIAL GROUP<br>Balance Sheet as at 30 June 2014 and 31 December 2013 | | |
|---|---|---|
| | Q2 2014<br>$MM | Q4 2013<br>$MM |
| **Assets** | | |
| Investments, at fair value | 1,445.4 | 1,533.0 |
| Management contracts | 33.1 | 36.5 |
| Cash and cash equivalents | 258.9 | 245.9 |
| Amounts due from brokers | 73.0 | 42.0 |
| Derivative financial assets | 13.3 | 15.2 |
| Property, plant and equipment | 0.2 | 0.3 |
| Deferred tax asset and income tax receivable | 8.7 | 8.3 |
| Other receivables | 40.6 | 26.5 |
| **Total assets** | **1,873.2** | **1,907.7** |
| **Liabilities** | | |
| Other payables and accrued expenses | 39.9 | 79.8 |
| Amounts payable on share options | 11.3 | 10.7 |
| Deferred tax liability and income tax payable | 9.6 | 10.7 |
| Derivative financial liabilities | 3.9 | 3.3 |
| **Total liabilities** | **64.7** | **104.5** |
| **Net assets** | **1,808.5** | **1,803.2** |

# FINANCIAL REVIEW

## STATEMENT OF CASH FLOWS

Figure 21

| TETRAGON FINANCIAL GROUP<br>Statement of Cash Flows | | | |
|---|---|---|---|
| | H1 2014<br>$MM | H1 2013<br>$MM | H1 2012<br>$MM |
| **Operating Activities** | | | |
| Operating cash flows after incentive fees and before movements in working capital | 134.6 | 183.6 | 172.6 |
| Change in payables / receivables | (2.8) | (0.2) | (2.3) |
| **Cash flows from operating activities** | **131.8** | **183.4** | **170.3** |
| **Investment Activities** | | | |
| Proceeds on sales of investments | | | |
| - Proceeds sale of CLOs | 128.0 | - | 0.2 |
| - Net proceeds from swap resets | (11.8) | - | - |
| - Proceeds sale of bank loans and maturity and prepayment of investments | 12.5 | 84.9 | 54.0 |
| - Proceeds on realisation of real estate investments | 26.7 | 6.8 | - |
| - Proceeds from GreenOak working capital repayment | 2.6 | - | - |
| Purchase of investments | | | |
| - Purchase of CLOs | (63.6) | (45.5) | (66.1) |
| - Purchase of bank loans | (1.4) | (13.9) | (34.3) |
| - Purchase of real estate investments | (50.1) | (17.0) | (5.8) |
| - Investments in asset managers | - | (0.5) | (2.7) |
| - Investments in Polygon Equity Funds | - | (60.0) | - |
| - Investments in Polygon Credit, Convertibles and Distressed Funds | (25.0) | (10.0) | - |
| - Investments in Other Equities, Credit, Convertibles and Distressed | (27.3) | - | - |
| **Cash flows from operating and investing activities** | **122.4** | **128.2** | **115.6** |
| Amounts due from broker | (31.0) | (20.0) | 9.3 |
| Net purchase of shares | (49.2) | (13.7) | (12.3) |
| Dividends paid to shareholders | (29.0) | (26.4) | (24.2) |
| Distributions paid to noncontrolling interest | - | - | (0.7) |
| **Cash flows from financing activities** | **(109.2)** | **(60.1)** | **(27.9)** |
| Net increase in cash and cash equivalents | 13.2 | 68.1 | 87.8 |
| Cash and cash equivalents at beginning of period | 245.9 | 175.9 | 211.5 |
| Effect of exchange rate fluctuations on cash and cash equivalents | (0.2) | (0.2) | (0.2) |
| **Cash and cash equivalents at end of period** | **258.9** | **243.8** | **299.1** |

## FINANCIAL REVIEW

### NET ECONOMIC INCOME TO U.S. GAAP RECONCILIATION

Figure 22

| Net Economic Income to U.S. GAAP Reconciliation | 30 Jun 2014 $MM |
|---|---|
| **Net economic income** | **86.0** |
| Share based employee compensation | (11.5) |
| Unrealised Polygon performance fees | (4.7) |
| Imputed tax charge on unrealised Polygon performance fees | 1.4 |
| Estimated TFM incentive fee on unrealised Polygon performance fees | 0.8 |
| **U.S. GAAP net income** | **71.9** |

TFG is primarily reporting earnings through a non-GAAP measurement called Net Economic Income.

The reconciliation on the table above shows the adjustment required to get from this measure of earnings to U.S. GAAP net income. There are currently two categories of adjusting items: share based employee compensation of $11.5 million; and net performance fee earned but not accrued of $2.5 million, after taking into account an imputed tax charge and incentive fee payable to TFM thereon.

In relation to the share based compensation, under ASC 805 TFG is recognizing the value of the shares given in consideration for the Polygon transaction as employee compensation over the period in which they are vesting.

This mechanic and future vesting schedule are described in more detail in the Master Fund audited financial statements for the year ended 31 December 2013, and the unaudited financial statements for the period ended 30 June 2014.

Unrealised Polygon performance fees represent the fees calculated by the applicable administrator of the relevant Polygon funds, in accordance with the applicable fund constitutional documents, when determining NAV at quarter end, less certain assumed costs. Similar amounts, if any, from LCM and GreenOak are excluded from this line item. Such fees would typically not be realised or recognised under U.S. GAAP until calendar year end, and are therefore subject to change based on fund performance during the remainder of the year. There are can be no assurance that the company will realise all or any portion of such amounts. Through 30 June 2014, this amount equalled $4.7 million before (1) an assumed imputed tax charge and (2) estimated TFM performance fees reduced the net contribution to $2.5 million as shown in Figure 11and further represented in Figures 18 and 19 of this report. It also includes any unrealised performance fees to potentially be paid on investments made by TFG in Polygon hedge funds or other investment vehicles. TFG is able to invest at a preferred level of fees.

# APPENDICES

# APPENDICES

## APPENDIX I

## CERTAIN REGULATORY INFORMATION

This Performance Report constitutes TFG's semi-annual financial report as required pursuant to Section 5:25d of the Dutch Financial Markets Supervision Act ("FMSA"). Pursuant to Section 5:25d and 5:25m of the FMSA, this report is made public by means of a press release and has been filed with the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten) and also made available to the public by way of publication on the TFG website (www.tetragoninv.com).

An investment in TFG involves substantial risks. Please refer to the Company's website at www.tetragoninv.com for a description of the risks and uncertainties pertaining to an investment in TFG.

This release does not contain or constitute an offer to sell or a solicitation of an offer to purchase securities in the United States or any other jurisdiction. The securities of TFG have not been and will not be registered under the U.S. Securities Act of 1933 (the "Securities Act"), as amended, and may not be offered or sold in the United States or to U.S. persons unless they are registered under applicable law or exempt from registration. TFG does not intend to register any portion of its securities in the United States or to conduct a public offer of securities in the United States. In addition, TFG has not been and will not be registered under the U.S. Investment Company Act of 1940, and investors will not be entitled to the benefits of such Act. TFG is registered in the public register of the Netherlands Authority for the Financial Markets under Section 1:107 of the FMSA as a collective investment scheme from a designated country. This release constitutes regulated information ("gereglementeerde informative") within the meaning of Section 1:1 of the FMSA.

TFG shares (the "Shares") are subject to legal and other restrictions on resale and the Euronext Amsterdam N.V. trading market is less liquid than other major exchanges, which could affect the price of the Shares.

There are additional restrictions on the resale of Shares by Shareholders who are located in the United States or who are U.S. persons and on the resale of Shares by any Shareholder to any person who is located in the United States or is a U.S. person. These restrictions include that each Shareholder who is located in the United States or who is a U.S. person must be a "Qualified Purchaser" or a "Knowledgeable Employee" (each as defined in the Investment Company Act of 1940), and, accordingly, that Shares may be resold to a person located in the United States or who is a U.S. person only if such person is a "Qualified Purchaser" or a "Knowledgeable Employee" under the Investment Company Act of 1940. These restrictions may adversely affect overall liquidity of the Shares.

## DIRECTORS' STATEMENTS

The Directors of TFG confirm that (i) this Performance Report constitutes the TFG management review for the six month period ended 30 June 2014 and contains a fair review of that period and (ii) the financial statements in the accompanying unaudited interim report for the six month period ended 30 June 2014 for TFG have been prepared in accordance with applicable laws and in conformity with accounting principles generally accepted in the United States of America.

# APPENDICES

## APPENDIX II

## FAIR VALUE DETERMINATION OF TFG'S CLO EQUITY INVESTMENTS

In accordance with the valuation policies set forth on TFG's website, the values of TFG's CLO equity investments are determined using a third-party cash flow modelling tool. The model contains certain assumption inputs that are reviewed and adjusted as appropriate to factor in how historic, current and potential market developments (examined through, for example, forward-looking observable data) might potentially impact the performance of TFG's CLO equity investments. Since this involves modelling, among other things, forward projections over multiple years, this is not an exercise in recalibrating future assumptions to the latest quarter's historical data.

Subject to the foregoing, when determining the U.S. GAAP-compliant fair value of TFG's portfolio, the company seeks to derive a value at which market participants could transact in an orderly market and also seeks to benchmark the model inputs and resulting outputs to observable market data when available and appropriate.

**Forward-looking CLO equity cash flow modelling assumptions unchanged at the end of Q2 2014:**

The Investment Manager reviews and, when appropriate, adjusts in consultation with TFG's audit committee the CLO equity investment portfolio's modelling assumptions as described above. At the end of Q2 2014, certain key assumptions relating to defaults, recoveries, prepayments and reinvestment prices were unchanged from the previous quarter. This was the case across both U.S. and European deals.

These key average assumption variables include the modelling assumptions disclosed as a weighted average (by U.S. dollar amount) of the individual deal assumptions, aggregated by geography (i.e. U.S. and European). Such weighted averages may change from month to month due to movements in the amortised costs of the deals, even without changes to the underlying assumptions. Each individual deal's assumptions may differ from this geographical average and vary across the portfolio.

The reinvestment price, assumptions about reinvestment spread and reinvestment life are also input into the model to generate an effective spread over LIBOR. Newer vintage CLOs may have a higher weighted-average reinvestment spread over LIBOR or shorter reinvestment life assumptions than older deals. Across the entire CLO portfolio, for those deals still in their reinvestment periods, the reinvestment price assumption of 100% for U.S. deals and European deals with their respective assumed weighted-average reinvestment spreads, generates an effective spread over LIBOR of approximately 362 bps on broadly syndicated U.S. loans and 279 bps on European loans. All middle market loan deals are through the end of their reinvestment periods.

## APPENDICES

### APPENDIX II (continued)

Figure 23

**U.S. CLOs**

| Variable | Year | Current Assumptions |
|---|---|---|
| CADR | | |
| | Until deal maturity | 1.0x WARF-implied default rate (2.2%) |
| Recovery Rate | | |
| | Until deal maturity | 73% |
| Prepayment Rate | | |
| | Until deal maturity | 20.0% p.a. on loans; 0.0% on bonds |
| Reinvestment Price | | |
| | Until deal maturity | 100% |

Figure 24

**European CLOs**

| Variable | Year | Current Assumptions |
|---|---|---|
| CADR | | |
| | 2014 | 1.25x WARF-implied default rate (2.6%) |
| | Thereafter | 1.0x WARF-implied default rate (2.1%) |
| Recovery Rate | | |
| | Until deal maturity | 68% |
| Prepayment Rate | | |
| | Until deal maturity | 20.0% p.a. on loans; 0.0% on bonds |
| Reinvestment Price | | |
| | Until deal maturity | 100% |

**Application of Discount Rate to Projected CLO Equity Cash Flows: U.S. CLO 1.0 Equity – discount rates reduced from 13% to 12%**

In determining the applicable rates to use to discount projected cash flows, an analysis of observable risk premium data is undertaken. For U.S. CLOs, observable risk premia such as BB and BBB CLO tranche spreads maintained previous reductions and have been extremely stable at the current low levels.

For example, according to Citibank research, BB spreads which were 5.0% at the end of Q4 2013, ended Q2 2014 at 5.1%, whilst BBB spreads reduced from 3.2% at the end of Q1 2014 to 3.0% at the end of Q2 2014.

In the second quarter, TFG sold seven U.S. CLO 1.0 positions, all at or above their carrying values as calculated using a 13% discount rate, and other market related information, such as broker research and bid lists, strongly indicated that discount rates or yields had continued to compress. Taking into account all of the factors outlined above, this discount rate has been reduced to 12%. The future movement of mezzanine tranche spreads as well as the likely range of spreads of equity discount rates over such spreads, among other factors, will continue to be monitored in coming quarters.

## APPENDIX II (continued)

**European CLO Equity – discount rates reduced from 16% to 14%**

Like their U.S. equivalents, European BB-rated tranche yields have continued exhibit stability at these current low levels. For example, these are unchanged at 6.9% compared to the end of the previous quarter, which is less than 2% higher than the U.S. CLO 1.0 BB spreads (see above). Notwithstanding the potential higher risks connected with the ongoing Eurozone issues, we believe that the stability of the differential between European and U.S. mezzanine spreads is indicative, among other things, of a genuine compression in risk premium between the two geographies over the last few quarters. In order to better reflect this factor outlined above and the stability of mezzanine spreads at the current low levels, the discount rate applied to European deal projected cash flows has been reduced to 14% from 16%. This squeezes the differential on discount rates used on U.S. pre-crisis deals and European deals to 2%. The observable range of European risk premia over the U.S. equivalent, among other factors, will continue to be monitored in coming quarters.

Historically, we have characterised the difference arising where fair value is lower than the amortised cost for the portfolio, which can occur when the discount rates used to discount future cash flows when determining fair value are higher than the modelled IRRs, as the "ALR Fair Value Adjustment" or "ALR". For European deals at the end of Q2 2014, the ALR stood at $17.8 million, compared to $31.6 million at the end of Q1 2014. As explained in prior releases, the ALR is now zero for U.S. deals. Given the foregoing, we currently do not expect to report this number on a quarterly basis going forward.

**U.S. CLO 2.0 Equity – discounted using deal IRR**

The applicable discount rate for newer vintage deals is determined with reference to each deal's specific IRR, which, in the absence of other consistently available observable data points, is deemed to be the most appropriate indication of the current risk premium on these structures. At the end of Q2 2014, the weighted-average discount rate (and IRR) on these deals was 11.4%. Such deals represented approximately 27.1% of the CLO equity portfolio by fair value (up from 20.6% at the end of Q1 2014). We will continue to monitor observable data on these newer vintage transactions to determine whether the IRR remains the appropriate discount rate.

**Effect on fair value and net income of the recalibration of discount rates**

Overall, the net impact of the recalibration of discount rates described above led to an overall increase in fair value of the total CLO equity portfolio of approximately $21.3 million, or $16.0 million in bottom line net income.

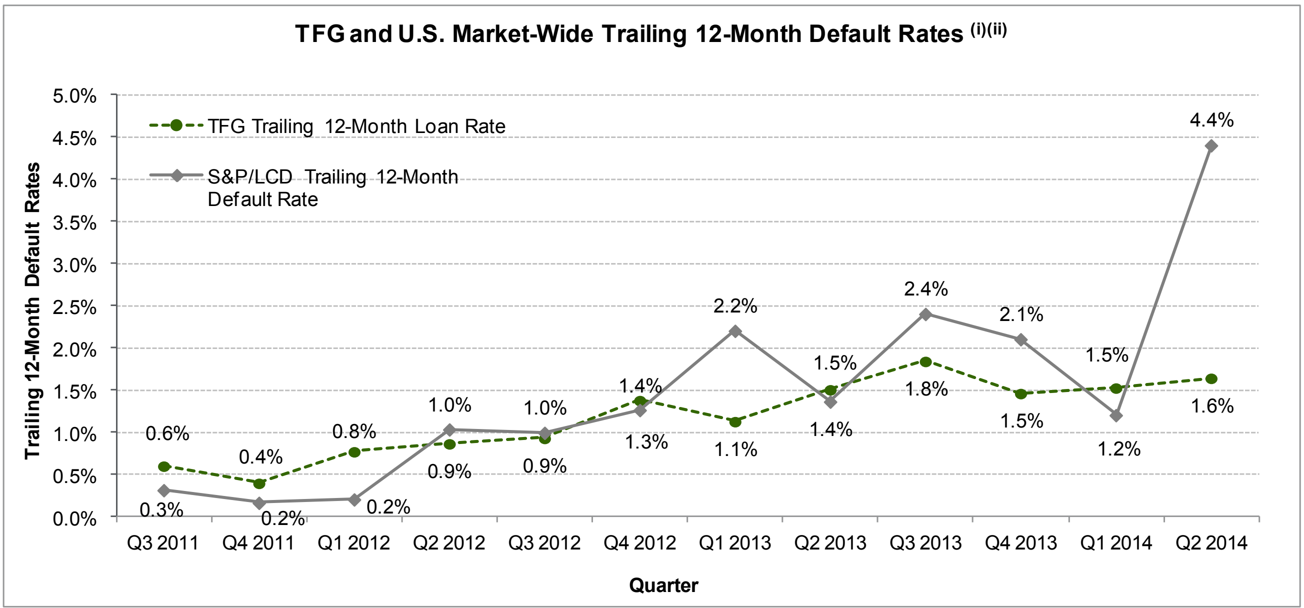
# APPENDICES

## APPENDIX III

## ADDITIONAL CLO PORTFOLIO STATISTICS

Each individual deal's metrics used in the calculation of the figures below will differ from the overall averages and vary across the portfolio.

Figure 25




(i) The calculation of TFG's lagging 12-month corporate loan default rate does not include certain underlying investment collateral that was assigned a "Selective Default" rating by one or more of the applicable rating agencies. Such Selected Defaults are included the S&P/LCD lagging 12-month U.S. institutional loan default rate discussed above. Furthermore, TFG's CLO equity and direct loan investment portfolio includes approximately 15.2% CLOs with primary exposure to European senior secured loans and such loans are included in the calculation of TFG's corporate default rate. The increase in the S&P/LCD Trailing 12 Month Default Rate from Q1 2014 to Q2 2014 was largely the result of a single bankruptcy.

(ii) Source: S&P/LCD Quarterly Review as of the outlined quarter-end date.

Figure 26

| ALL CLOs | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Q1 2012 | Q4 2011 | Q3 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Caa1/CCC+ or Below Obligors: | 3.7% | 4.6% | 5.4% | 4.9% | 5.0% | 5.1% | 6.0% | 6.4% | 5.7% | 6.2% | 7.0% | 7.0% |
| WARF: | 2,621 | 2,565 | 2,542 | 2,553 | 2,568 | 2,541 | 2,599 | 2,605 | 2,578 | 2,588 | 2,624 | 2,614 |

| U.S. CLOs | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Q1 2012 | Q4 2011 | Q3 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Caa1/CCC+ or Below Obligors: | 3.0% | 3.4% | 3.8% | 3.9% | 4.1% | 4.0% | 4.5% | 4.9% | 4.2% | 4.8% | 5.5% | 5.5% |
| WARF: | 2,556 | 2,544 | 2,513 | 2,534 | 2,550 | 2,510 | 2,524 | 2,528 | 2,491 | 2,504 | 2,533 | 2,522 |

| EUR CLOs | Q2 2014 | Q1 2014 | Q4 2013 | Q3 2013 | Q2 2013 | Q1 2013 | Q4 2012 | Q3 2012 | Q2 2012 | Q1 2012 | Q4 2011 | Q3 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Caa1/CCC+ or Below Obligors: | 6.9% | 9.4% | 11.8% | 9.1% | 8.7% | 9.7% | 11.7% | 12.2% | 11.6% | 11.1% | 12.3% | 12.0% |
| WARF: | 2,894 | 2,650 | 2,658 | 2,631 | 2,642 | 2,670 | 2,896 | 2,903 | 2,910 | 2,900 | 2,948 | 2,941 |

# APPENDICES

## APPENDIX III (continued)

### CLO EQUITY PORTFOLIO DETAILS
### AS OF 30 JUNE 2014

Figure 27

| Transaction(i) | Deal Type | Original Invest. Cost ($MM USD)(ii) | Deal Closing Date | Year of Maturity | End of Reinv Period | Wtd Avg Spread (bps)(iii) | Original Cost of Funds (bps)(iv) | Current Cost of Funds (bps)(v) | Current Jr-Most O/C Cushion(vi) | Jr-Most O/C Cushion at Close(vii) | Annualised (Loss) Gain of Cushion(viii) | IRR(ix) | ITD Cash Received as % of Cost(x) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Transaction 1 | EUR CLO | 37.5 | 2007 | 2024 | 2014 | 380 | 55 | 58 | 0.86% | 3.86% | (0.43%) | 0.5% | 36.4% |
| Transaction 2 | EUR CLO | 29.7 | 2006 | 2023 | 2013 | 407 | 52 | 66 | 1.38% | 3.60% | (0.29%) | 10.4% | 108.3% |
| Transaction 3 | EUR CLO | 22.2 | 2006 | 2022 | 2012 | 425 | 58 | 92 | 4.40% | 5.14% | (0.09%) | 11.4% | 129.2% |
| Transaction 4 | EUR CLO | 33.0 | 2007 | 2023 | 2013 | 419 | 48 | 54 | 7.45% | 5.76% | 0.23% | 15.3% | 138.8% |
| Transaction 5 | EUR CLO | 36.9 | 2007 | 2022 | 2014 | 401 | 60 | 56 | 0.77% | 5.74% | (0.72%) | 10.2% | 94.5% |
| Transaction 6 | EUR CLO | 33.3 | 2006 | 2022 | 2012 | 384 | 51 | 72 | 9.63% | 4.70% | 0.61% | 5.7% | 51.8% |
| Transaction 7 | EUR CLO | 38.5 | 2007 | 2023 | 2013 | 406 | 46 | 53 | 7.35% | 3.64% | 0.51% | 6.7% | 41.7% |
| Transaction 8 | EUR CLO | 26.9 | 2005 | 2021 | 2011 | 396 | 53 | 106 | 16.75% | 4.98% | 1.32% | 8.8% | 109.9% |
| Transaction 10 | EUR CLO | 27.0 | 2006 | 2022 | 2012 | 385 | 50 | 73 | 1.87% | 4.54% | (0.34%) | 0.3% | 44.1% |
| Transaction 86 | EUR CLO | 3.6 | 2006 | 2022 | 2012 | 385 | 50 | 73 | 1.87% | 3.11% | (0.16%) | 8.3% | 15.9% |
| **EUR CLO Subtotal:** | | **288.6** | | | | **399** | **52** | **68** | **5.39%** | **4.61%** | **0.07%** | | **79.9%** |
| Transaction 11 | U.S. CLO | 20.5 | 2006 | 2018 | 2012 | 298 | 45 | 56 | 9.52% | 4.55% | 0.64% | 20.4% | 189.7% |
| Transaction 12 | U.S. CLO | 22.8 | 2006 | 2019 | 2013 | 320 | 46 | 58 | 10.71% | 4.45% | 0.82% | 20.3% | 188.4% |
| Transaction 13 | U.S. CLO | 15.2 | 2006 | 2018 | 2012 | 317 | 47 | 53 | 2.71% | 4.82% | (0.27%) | 21.8% | 209.3% |
| Transaction 14 | U.S. CLO | 26.0 | 2007 | 2021 | 2014 | 332 | 49 | 50 | 2.94% | 5.63% | (0.37%) | 19.0% | 191.2% |
| Transaction 15 | U.S. CLO | 28.1 | 2007 | 2021 | 2014 | 407 | 52 | 48 | 3.67% | 4.21% | (0.08%) | 29.7% | 242.8% |
| Transaction 16 | U.S. CLO | 23.5 | 2006 | 2020 | 2013 | 381 | 46 | 51 | 4.81% | 4.44% | 0.05% | 21.0% | 210.7% |
| Transaction 17 | U.S. CLO | 26.0 | 2007 | 2021 | 2014 | 320 | 40 | 40 | 4.52% | 4.24% | 0.04% | 24.0% | 205.7% |
| Transaction 18 | U.S. CLO | 16.7 | 2005 | 2017 | 2011 | 290 | 45 | 57 | 11.81% | 4.77% | 0.81% | 19.9% | 200.6% |
| Transaction 19 | U.S. CLO | 1.2 | 2005 | 2017 | 2011 | 290 | 45 | 57 | 11.81% | 4.77% | 0.81% | 23.7% | 194.8% |
| Transaction 20 | U.S. CLO | 26.6 | 2006 | 2020 | 2012 | 402 | 52 | 88 | 7.41% | 5.28% | 0.28% | 22.2% | 202.0% |
| Transaction 21 | U.S. CLO | 20.7 | 2006 | 2020 | 2012 | 383 | 53 | 90 | 7.74% | 4.76% | 0.38% | 18.4% | 180.4% |
| Transaction 22 | U.S. CLO | 37.4 | 2007 | 2021 | 2014 | 397 | 53 | 53 | 3.29% | 5.00% | (0.23%) | 21.9% | 191.4% |
| Transaction 23 | U.S. CLO | 19.9 | 2007 | 2021 | 2013 | 315 | 66 | 174 | 12.11% | 4.98% | 1.00% | 20.1% | 178.0% |
| Transaction 24 | U.S. CLO | 16.9 | 2006 | 2018 | 2012 | 365 | 46 | 57 | 9.18% | 4.17% | 0.64% | 18.0% | 181.5% |
| Transaction 25 | U.S. CLO | 20.9 | 2006 | 2018 | 2013 | 389 | 46 | 58 | 12.35% | 4.13% | 1.09% | 22.5% | 200.2% |
| Transaction 26 | U.S. CLO | 27.9 | 2007 | 2019 | 2013 | 410 | 43 | 59 | 11.97% | 4.05% | 1.09% | 19.2% | 181.9% |
| Transaction 29 | U.S. CLO | 19.1 | 2005 | 2018 | 2011 | 475 | 66 | N/A | N/A | 4.82% | N/A | 18.9% | 204.7% |
| Transaction 30 | U.S. CLO | 12.4 | 2006 | 2018 | 2012 | 420 | 67 | 149 | 7.92% | 5.16% | 0.34% | 18.1% | 178.1% |
| Transaction 31 | U.S. CLO | 9.5 | 2005 | 2017 | 2012 | 321 | 52 | 139 | 13.82% | 5.02% | 0.97% | 16.2% | 192.4% |
| Transaction 32 | U.S. CLO | 24.0 | 2007 | 2021 | 2014 | 308 | 59 | 59 | 4.38% | 5.57% | (0.17%) | 21.7% | 189.1% |
| Transaction 33 | U.S. CLO | 16.2 | 2006 | 2020 | 2012 | 354 | 56 | 157 | 11.11% | 6.99% | 0.50% | 13.8% | 163.4% |
| Transaction 34 | U.S. CLO | 22.2 | 2006 | 2020 | 2012 | 354 | 50 | 74 | 7.86% | 6.66% | 0.16% | 18.8% | 190.2% |
| Transaction 35 | U.S. CLO | 23.6 | 2006 | 2018 | 2012 | 422 | 52 | 263 | 35.11% | 5.00% | 3.75% | 19.3% | 175.7% |
| Transaction 36 | U.S. CLO | 28.4 | 2007 | 2021 | 2013 | 366 | 46 | 66 | 2.75% | 5.18% | (0.33%) | 19.1% | 175.8% |
| Transaction 38 | U.S. CLO | 23.7 | 2007 | 2021 | 2013 | 313 | 42 | 60 | 8.80% | 5.07% | 0.51% | 27.7% | 231.7% |
| Transaction 39 | U.S. CLO | 7.8 | 2005 | 2017 | 2011 | 400 | 70 | N/A | N/A | 3.15% | N/A | 8.5% | 137.6% |
| Transaction 40 | U.S. CLO | 13.0 | 2006 | 2020 | 2011 | 349 | 39 | 70 | N/A | N/A | N/A | 21.0% | 188.8% |
| Transaction 44 | U.S. CLO | 22.3 | 2006 | 2018 | 2012 | 122 | 54 | 485 | 54.80% | 4.16% | 6.22% | 10.2% | 126.1% |
| Transaction 45 | U.S. CLO | 23.0 | 2006 | 2018 | 2012 | 280 | 46 | 112 | 7.40% | 4.46% | 0.39% | 8.3% | 118.2% |
| Transaction 46 | U.S. CLO | 21.3 | 2007 | 2019 | 2013 | 290 | 51 | 102 | 5.10% | 4.33% | 0.11% | 7.2% | 109.3% |
| Transaction 47 | U.S. CLO | 28.3 | 2006 | 2021 | 2013 | 331 | 47 | 45 | 3.60% | 4.34% | (0.10%) | 22.5% | 204.1% |
| Transaction 49 | U.S. CLO | 12.6 | 2005 | 2017 | 2011 | 371 | 40 | 74 | 9.75% | 3.94% | 0.67% | 11.7% | 130.0% |

*(Continued on next page)*

# APPENDICES

## APPENDIX III (continued)

### CLO EQUITY PORTFOLIO DETAILS (CONTINUED)
### AS OF 30 JUNE 2014

Figure 27 (continued)

| Transaction(i) | Deal Type | Original Invest. Cost ($MM USD)(ii) | Deal Closing Date | Year of Maturity | End of Reinv Period | Wtd Avg Spread (bps)(iii) | Original Cost of Funds (bps)(iv) | Current Cost of Funds (bps)(v) | Current Jr-Most O/C Cushion(vi) | Jr-Most O/C Cushion at Close(vii) | Annualised (Loss) Gain of Cushion(viii) | IRR(ix) | ITD Cash Received as % of Cost(x) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Transaction 50 | U.S. CLO | 12.3 | 2006 | 2018 | 2012 | 371 | 40 | 63 | 8.54% | 4.25% | 0.53% | 12.7% | 135.2% |
| Transaction 56 | U.S. CLO | 23.0 | 2007 | 2019 | 2014 | 336 | 42 | 52 | 4.48% | 4.53% | (0.01%) | 22.2% | 194.6% |
| Transaction 57 | U.S. CLO | 0.6 | 2007 | 2019 | 2014 | 336 | 42 | 52 | 4.48% | 4.53% | (0.01%) | 47.4% | 1121.2% |
| Transaction 58 | U.S. CLO | 21.8 | 2007 | 2019 | 2014 | 339 | 49 | 54 | 4.40% | 4.04% | 0.05% | 24.8% | 207.4% |
| Transaction 59 | U.S. CLO | 0.4 | 2007 | 2019 | 2014 | 339 | 49 | 54 | 4.40% | 4.04% | 0.05% | 52.0% | 1600.2% |
| Transaction 61 | U.S. CLO | 29.1 | 2007 | 2021 | 2014 | 322 | 45 | 45 | 2.08% | 4.04% | (0.27%) | 18.0% | 163.1% |
| Transaction 62 | U.S. CLO | 25.3 | 2007 | 2020 | 2013 | 315 | 42 | 51 | 5.73% | 5.20% | 0.07% | 22.4% | 205.0% |
| Transaction 63 | U.S. CLO | 27.3 | 2007 | 2021 | 2013 | 357 | 53 | 59 | 3.01% | 4.78% | (0.25%) | 19.6% | 186.8% |
| Transaction 64 | U.S. CLO | 15.4 | 2007 | 2021 | 2013 | 376 | 38 | 45 | N/A | N/A | N/A | 23.1% | 208.4% |
| Transaction 65 | U.S. CLO | 26.9 | 2006 | 2021 | 2013 | 355 | 47 | 67 | 6.97% | 4.96% | 0.26% | 14.6% | 151.3% |
| Transaction 66 | U.S. CLO | 21.3 | 2006 | 2020 | 2013 | 292 | 49 | 50 | 3.40% | 4.05% | (0.08%) | 22.7% | 209.9% |
| Transaction 68 | U.S. CLO | 19.3 | 2006 | 2020 | 2013 | 336 | 48 | 50 | 6.60% | 4.41% | 0.29% | 27.7% | 252.1% |
| Transaction 69 | U.S. CLO | 28.2 | 2007 | 2019 | 2013 | 317 | 44 | 45 | 7.41% | 5.61% | 0.25% | 26.7% | 236.1% |
| Transaction 71 | U.S. CLO | 1.7 | 2006 | 2018 | 2012 | 371 | 40 | 63 | 8.54% | 4.25% | 0.53% | 27.8% | 103.7% |
| Transaction 72 | U.S. CLO | 4.8 | 2007 | 2019 | 2014 | 336 | 42 | 52 | 4.48% | 4.53% | (0.01%) | 18.2% | 96.3% |
| Transaction 73 | U.S. CLO | 1.9 | 2007 | 2019 | 2014 | 336 | 42 | 52 | 4.48% | 4.53% | (0.01%) | 18.2% | 96.3% |
| Transaction 74 | U.S. CLO | 5.5 | 2007 | 2019 | 2014 | 339 | 49 | 54 | 4.40% | 4.04% | 0.05% | 21.5% | 104.8% |
| Transaction 75 | U.S. CLO | 32.7 | 2011 | 2022 | 2014 | 378 | 168 | 168 | 4.47% | 4.05% | 0.14% | 11.7% | 62.7% |
| Transaction 76 | U.S. CLO | 1.9 | 2006 | 2018 | 2012 | 280 | 46 | 112 | 7.40% | 2.43% | 0.66% | 32.1% | 116.9% |
| Transaction 77 | U.S. CLO | 14.5 | 2011 | 2023 | 2016 | 394 | 212 | 213 | 5.77% | 5.04% | 0.29% | 13.5% | 45.1% |
| Transaction 78 | U.S. CLO | 22.9 | 2012 | 2023 | 2015 | 459 | 217 | 217 | 5.90% | 4.00% | 0.78% | 15.4% | 61.8% |
| Transaction 79 | U.S. CLO | 19.4 | 2012 | 2022 | 2015 | 398 | 215 | 179 | 4.06% | 4.00% | 0.02% | 9.1% | 40.3% |
| Transaction 80 | U.S. CLO | 22.7 | 2012 | 2022 | 2016 | 399 | 185 | 185 | 4.06% | 4.17% | (0.05%) | 11.0% | 42.5% |
| Transaction 81 | U.S. CLO | 21.7 | 2012 | 2024 | 2016 | 421 | 216 | 217 | 4.79% | 4.00% | 0.44% | 8.0% | 30.3% |
| Transaction 82 | U.S. CLO | 25.4 | 2012 | 2022 | 2016 | 402 | 206 | 207 | 4.11% | 4.00% | 0.06% | 8.1% | 30.3% |
| Transaction 83 | U.S. CLO | 20.8 | 2013 | 2025 | 2017 | 465 | 193 | 193 | 6.86% | 6.17% | 0.51% | 13.9% | 25.1% |
| Transaction 84 | U.S. CLO | 24.6 | 2013 | 2023 | 2017 | 396 | 183 | 184 | 4.12% | 4.02% | 0.07% | 15.9% | 35.5% |
| Transaction 85 | U.S. CLO | 1.0 | 2013 | 2025 | 2017 | 402 | 170 | 171 | 5.04% | 5.01% | 0.04% | 9.5% | 18.5% |
| Transaction 87 | U.S. CLO | 23.0 | 2013 | 2026 | 2018 | 409 | 199 | 199 | 4.19% | 4.00% | 0.33% | 6.4% | 0.0% |
| Transaction 88 | U.S. CLO | 30.1 | 2014 | 2024 | 2018 | 423 | 199 | 200 | 4.04% | 4.02% | 0.06% | 12.5% | 0.0% |
| Transaction 89 | U.S. CLO | 33.6 | 2014 | 2026 | 2018 | 368 | 195 | 195 | 3.96% | 3.96% | - | 12.0% | 0.0% |
| **U.S. CLO Subtotal:** | | **1,216.4** | | | | **360** | **84** | **108** | **7.16%** | **4.51%** | **0.38%** | | **150.0%** |
| | | | | | | | | | | | | | |
| **Total CLO Portfolio:** | | **1,505.0** | | | | **367** | **78** | **100** | **6.82%** | **4.53%** | **0.32%** | | **136.6%** |

**Notes**

(i) Transactions are investments made on a particular investment date. Multiple transactions may be associated with the same tranche of the same CLO deal. Note that certain transactions may have been removed from the table above, as the remaining value of the assets of those CLOs is immaterial. Such transactions may continue to be held as of the date of this report.

(ii) The USD investment cost reflects a USD-EUR exchange rate fixed at a single historical rate to avoid the impact of skewed weightings and FX volatility over time. As such, the investment costs of European CLOs as shown in this table may not be comparable to the investments costs as shown in TFG's financial statements.

(iii) Par weighted-average spread over LIBOR or EURIBOR (as appropriate) of the underlying loan assets in each CLO's portfolio.

(iv) Notional weighted-average spread over LIBOR or EURIBOR (as appropriate) of the debt tranches issued by each CLO, as of the closing date of each transaction.

(v) Notional weighted-average spread over LIBOR or EURIBOR (as appropriate) of the debt tranches issued by each CLO, as of the most recent trustee report date.

(vi) The current junior-most O/C cushion is the excess (or deficit) of the junior-most O/C test ratio over the test requirement, as of the latest trustee report available as of the report date.

(vii) The junior-most O/C cushion at close is the excess (or deficit) of the junior-most O/C test ratio over the test requirement that was expected on each deal's closing date. Please note that two of TFG's investments are so called “par structures” which don't include a junior O/C test. They have been marked by an “N/A” in the relevant junior-most O/C test columns.

(viii) Calculated by annualizing the change from the expected closing date junior-most O/C cushion to the current junior-most O/C cushion.

(ix) Calculated from TFG's investment date. Includes both historical cash flows received to-date and prospective cash flows expected to be received, based on TFG's base case modeling assumptions.

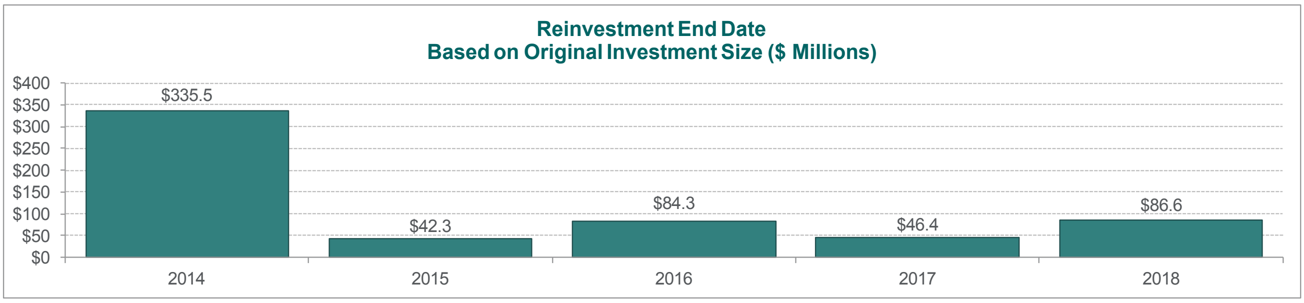
(x) Inception to report date cash flow received on each transaction as a percentage of its original cost.

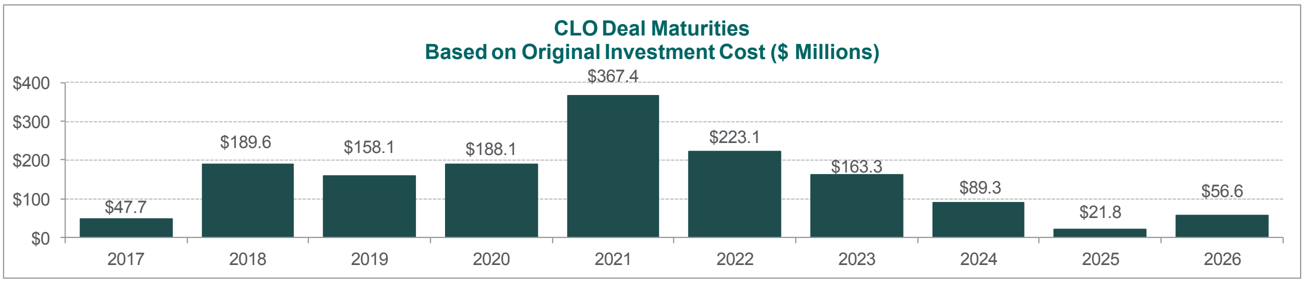
# APPENDICES

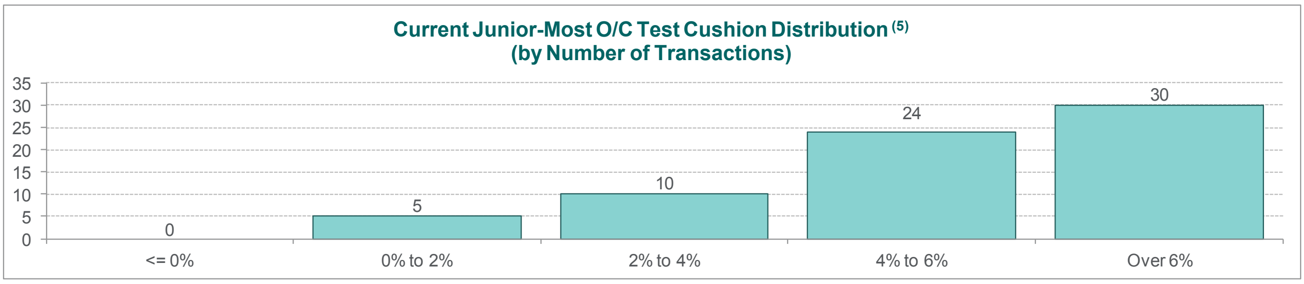
## APPENDIX III (continued)

### CLO EQUITY PORTFOLIO DETAILS (CONTINUED) AS OF 30 JUNE 2014

Figure 28



# APPENDICES

## APPENDIX IV

## SHARE RECONCILIATION AND SHAREHOLDINGS

## U.S. GAAP TO FULLY DILUTED SHARES RECONCILIATION

Figure 29[33]

| U.S. GAAP to Fully Diluted Shares Reconciliation | 30 Jun 2014 Shares (MM) |
|---|---|
| **Legal Shares Issued and Outstanding** | **135.24** |
| Less: Shares Held In Subsidiary | (16.60) |
| Less: Shares Held In Treasury | (12.80) |
| Less: Escrow Shares[33.i] | (11.60) |
| **U.S. GAAP Shares Outstanding** | **94.24** |
| Add: Manager (IPO) Share Options[33.ii] | 0.04 |
| Add: Escrow Shares[33.i] | 11.60 |
| **Pro Forma Fully Diluted Shares** | **105.88** |

# BOARD OF DIRECTORS

| | | |
|---|---|---|
| **Paddy Dear** | **Reade Griffith** | **Rupert Dorey*** |
| **Frederic Hervouet*** | **Byron Knief*** | **David Jeffreys*** |

*Independent Director

# SHAREHOLDER INFORMATION

**Registered Office of TFG and the Master Fund**
Tetragon Financial Group Limited
Tetragon Financial Group Master Fund Limited
1st Floor Dorey Court
Admiral Park
St. Peter Port, Guernsey
Channel Islands GY1 6HJ

**Investment Manager**
Tetragon Financial Management LP
399 Park Avenue, 22nd Floor
New York, NY 10022
United States of America

**General Partner of Investment Manager**
Tetragon Financial Management GP LLC
399 Park Avenue, 22nd Floor
New York, NY 10022
United States of America

**Investor Relations**
David Wishnow / Greg Wadsworth
ir@tetragoninv.com

**Press Inquiries**
Sard Verbinnen & Co
tetragon-svc@sardverb.com

**Auditors**
KPMG Channel Islands Ltd.
20 New Street
St. Peter Port, Guernsey
Channel Islands GY1 4AN

**Sub-Registrar and Transfer Agent**
Computershare
One Wall Street
New York, NY 10286
United States of America

**Issuing Agent, Dutch Paying and Transfer Agent**
Kas Bank N.V.
Spuistraat 172
1012 VT Amsterdam
The Netherlands

**Legal Advisor (as to U.S. law)**
Cravath, Swaine & Moore LLP
Worldwide Plaza
825 Eighth Avenue
New York, NY 10019
United States of America

**Legal Advisor (as to Guernsey law)**
Ogier
Ogier House
St. Julian's Avenue
St. Peter Port, Guernsey
Channel Islands GY1 1WA

**Legal Advisor (as to Dutch law)**
De Brauw Blackstone Westbroek N.V.
Claude Debussylaan 80
1082 MD Amsterdam
The Netherlands

**Stock Listing**
Euronext Amsterdam N.V.

**Administrator and Registrar**
State Street (Guernsey) Limited
1st Floor Dorey Court
Admiral Park
St. Peter Port, Guernsey
Channel Islands GY1 6HJ

# ENDNOTES

**Executive Summary and Outlook**

(1) TFG invests substantially all its capital through a master fund, Tetragon Financial Group Master Fund Limited ("TFGMF"), in which it holds 100% of the issued shares. In this report, unless otherwise stated, we report on the consolidated business incorporating TFG and TFGMF. References to "we" or "our" are to Tetragon Financial Management LP, TFG's investment manager.

(2) TFG's returns will most likely fluctuate with LIBOR. LIBOR directly flows through some of TFG's investments and, as it can be seen as the risk-free short-term rate, it should affect all of TFG's investments. In high-LIBOR environments, TFG should achieve higher sustainable returns; in low-LIBOR environments, TFG should achieve lower sustainable returns.

(3) "U.S. CLO 1.0" refers to U.S. CLOs issued before or during 2008. "U.S. CLO 2.0" refers to U.S. CLOs issued after 2008.

(4) Please see endnote 2.

(5) The percentage of TFG's capital that is externally managed is calculated by dividing the sum of the U.S. GAAP fair value of all investment assets managed by parties other than TFG or its affiliates, by the total Net Asset Value of the company.

(6) Includes GreenOak funds and advisory assets, AUM for Polygon Recovery Fund LP, Polygon Convertible Opportunity Master Fund, Polygon European Equity Opportunity Master Fund and associated managed account, Polygon Mining Opportunity Master Fund, Polygon Global Equities Master Fund and Polygon Distressed Opportunities Master Fund, as calculated by the applicable administrator for value date 30 June 2014. Includes, where relevant, investments by Tetragon Financial Group Master Fund Limited. TFG Asset Management AUM as used in this report includes the assets under management of several investment advisers, including Tetragon Asset Management L.P., and GreenOak Real Estate, LP, each of which is an investment manager registered under the U.S. Investment Advisers Act of 1940.

(7) Fee income nets off cost of recovery on "Other fee income" against this cost contained in "Operating, employee, and administrative expenses," and includes amounts earned through third-party fee sharing arrangements. It also includes any fees earned through fees paid on investments made by TFG in Polygon hedge funds or other investment vehicles. TFG is able to invest at a preferred level of fees.

**Key Metrics**

(8) Please refer to Financial Highlights on page 26 of this report for the definition of Return on Equity or "RoE".

(9) Please see endnote 2.

(10) Please refer to Financial Highlights on page 26 of this report for the definition of Net Economic Income.

(11) Please refer to Financial Highlights on page 26 of this report for the definition of Adjusted EPS.

(12) Please refer to Financial Highlights on page 26 of this report for the definition of Pro Forma Fully Diluted Shares and Pro Forma Fully Diluted NAV per Share.

(13) Please see endnote 2.

(14) Includes an amount receivable at 30 June 2014 of $25.1 million relating to the sale of a CLO position.

**Investment Portfolio**

(15) The CLO asset characterisations referenced above reflect the primary asset focus of the vehicles. These transactions, however, may allow for limited exposure to other asset classes including unsecured loans, high yield bonds, or structured finance securities.

(16) For each CLO, TFG's indirect exposure to the underlying assets is calculated by multiplying the total par amount of the CLO's assets by the percentage of the equity tranche owned by TFG. Each CLO's data is as of the date of the latest available trustee report.

(17) Please note that TFG may hold more than one investment in any CLO transaction within its portfolio.

(18) Based on the most recent trustee reports available as of 30 June 2014.

## ENDNOTES (continued)

(19) Based on the most recent trustee reports available as of 30 June 2014.

(20) Based on the most recent trustee reports available as of 30 June 2014.

(21) Past performance or experience (actual or simulated) does not necessarily give a guide for the future and no representation is being made that the funds listed will or are likely to achieve profits or losses similar to those shown. TFG invests in Polygon-managed funds on a preferred fee-basis.

**TFG Asset Management**

(22) TFG owns a 23% stake in GreenOak and for accounting purposes treats this stake as an investment rather than consolidating the underlying net assets and net income of this business. Any change in the calculated fair value of the 23% stake in GreenOak will be reflected through the TFG Asset Management segment below the EBITDA equivalent line. During Q2 2014, as the result of a recalibration of the fair value of this stake, $5.7 million of value was recognised in the TFG Asset Management Statement of Operations.

(23) Unrealised Polygon performance fees represent the fees calculated by the applicable administrator of the relevant Polygon funds, in accordance with the applicable fund constitutional documents, when determining net asset value at quarter end, less certain assumed costs. Similar amounts, if any, from LCM and GreenOak are excluded from this line item. Such fees would typically not be realised or recognised under U.S. GAAP until calendar year end, and are therefore subject to change based on fund performance during the remainder of the year. There are can be no assurance that the company will realise all or any portion of such amounts. Through 30 June 2014, this amount equalled $4.7 million before (1) an assumed imputed tax charge and (2) estimated TFM performance fees reduced the net contribution to $2.5 million as shown in Figure 11 and further represented in Figures 18 and 19 of this report.

(24) The LCM IV, LCM V, LCM VI, LCM IX, LCM X, LCM XI, LCM XII, LCM XIII, LCM XIV, LCM XV and LCM XVI CLOs are referred to as the “LCM Cash Flow CLOs.” These statistics do not include the performance of certain transactions that were developed and previously managed by a third-party prior to being assigned to LCM, some of which continue to be managed by LCM.

(25) The Polygon Convertible Opportunity Fund began trading with Class B shares, which carry no incentive fees, on 20 May 2009. Class A shares of the fund were first issued on 1 April 2010 and returns from inception through March 2010 have been *pro forma* adjusted to match the fund's Class A share terms as set forth in the Offering Memorandum (1.5% management fee, 20% incentive fee over a hurdle and other items, in each case, as set forth in the Offering Memorandum). From April 2010, forward, the reported returns reflect actual Class A share performance on the terms set forth in the Offering Memorandum. The return figures shown are final values as calculated by the applicable fund administrator. Past performance or experience (actual or simulated) does not necessarily give a guide for the future and no representation is being made that the funds listed will or are likely to achieve profits or losses similar to those shown.

(26) The Polygon European Equity Opportunity Fund began trading 8 July 2009 with Class B shares which carry no incentive fee. Class A shares commenced trading on 1 December 2009. Returns from inception through November 2009 for Class A shares have been *pro forma* adjusted to match the fund's Class A share terms as set forth in the Offering Memorandum (1.5% management fee, 20% incentive fee and other items, in each case, as set forth in the offering Memorandum). From December 2009 to February 2011, reported performance reflects actual Class A share performance on the terms set forth in the Offering Memorandum. From March 2011, forward, the table reflects actual Class A1 share performance on the terms set forth in the Offering Memorandum. Class A1 share performance is equivalent to Class A share performance for prior periods. The return figures shown are final values as calculated by the applicable fund administrator. Past performance or experience (actual or simulated) does not necessarily give a guide for the future and no representation is being made that the funds listed will or are likely to achieve profits or losses similar to those shown.

## ENDNOTES (continued)

(27) The Polygon Mining Opportunity Fund began trading with Class B1 shares, which carry no incentive fees, on 1 June 2012. Returns shown here through October 2013 have been *pro forma* adjusted to account for a 2.0% management fee, a 20% incentive fee, and non trading expenses capped at 1%, in each case, as set forth in the Offering Memorandum. Class A1 shares of the Fund were first issued on 1 November 2013. From November 2013, forward, reported performance reflects actual Class A1 share performance on the terms set forth in the Offering Memorandum. The return figures shown are final values as calculated by the applicable fund administrator. Past performance or experience (actual or simulated) does not necessarily give a guide for the future and no representation is being made that the funds listed will or are likely to achieve profits or losses similar to those shown.

(28) The Polygon Distressed Opportunities Fund began trading on 2 September 2013. Returns shown are for offshore Class A shares, reflecting the terms set forth in the offering documents (2.0% management fee, 20% incentive fee and other items, in each case, as set forth in the offering documents) as calculated by the applicable fund administrator. Past performance or experience (actual or simulated) does not necessarily give a guide for the future and no representation is being made that the funds listed will or are likely to achieve profits or losses similar to those shown.

(29) The Polygon Global Equities Fund began trading with Class B/B1 shares, which carry no incentive fees, on 12 September 2011. Returns shown from inception through August 2013 have been *pro forma* adjusted to account for a 2.0% management fee and a 20% incentive fee, in each case, as to be set forth in further definitive documents. The fund began trading Class A shares, which are not new issue eligible, on 23 September 2011. Class A1 shares of the Fund, which are new issue eligible, were first issued on 1 November 2013, and returns from inception through October 2013 have been *pro forma* adjusted to match the Fund's Class A1 performance. AUM figure and net performance is as calculated by the applicable fund administrator. Past performance or experience (actual or simulated) does not necessarily give a guide for the future and no representation is being made that the funds listed will or are likely to achieve profits or losses similar to those shown.

(30) The Private Equity Vehicle noted is the Polygon Recovery Fund L.P. ("PRF"). The manager of the PRF is a subsidiary of TFG having been acquired in the Polygon transaction. The management fees earned in respect of PRF are included in the TFG Asset Management business segment described herein. PRF is a limited-life vehicle seeking to dispose of its portfolio securities prior to its initial term expiring in the first half of 2015 – with two additional one-year terms based on performance or investor approval. Individual investor performance will vary based on their high water mark. Currently the majority of Class C share class investors have not reached their high water mark, so their performance is the same as their gross performance. AUM figure and net performance is for PRF as calculated by the applicable fund administrator.

**Financial Review**

(31) Unrealised Polygon performance fees represent the fees calculated by the applicable administrator of the relevant Polygon funds, in accordance with the applicable fund constitutional documents, when determining net asset value at quarter end, less certain assumed costs. Similar amounts, if any, from LCM and GreenOak are excluded from this line item. Such fees would typically not be realised or recognised under U.S. GAAP until calendar year end, and are therefore subject to change based on fund performance during the remainder of the year. There are can be no assurance that the company will realise all or any portion of such amounts. Through 30 June 2014, this amount equalled $4.7 million before (1) an assumed imputed tax charge and (2) estimated TFM performance fees reduced the net contribution to $2.5 million as shown in Figure 11 and further represented in Figures 18 and 19 of this report. It also includes any unrealised performance fees to potentially be paid on investments made by TFG in Polygon hedge funds or other investment vehicles. TFG is able to invest at a preferred level of fees.

## ENDNOTES (continued)

(32) Pro Forma Fully Diluted NAV per Share seeks to reflect certain potential changes to the total non-voting shares over the next few years, which may be utilised in the calculation of NAV per Share. Specifically, the number of shares used to calculate U.S. GAAP NAV per Share has been adjusted to incorporate:

(i) The Escrow Shares, which have been used as consideration for the acquisition of Polygon and applicable stock dividends relating thereto, and which are held in escrow and are expected to be released and incorporated into the U.S. GAAP NAV per Share over the next four years.

(ii) The number of shares corresponding to the applicable intrinsic value of the options issued to the Investment Manager at the time of the company's IPO with a strike price of $10.00, to the extent such options are in the money at period end. The intrinsic value of the manager (IPO) share options is calculated as the excess of (x) the closing price of the shares as of the final trading day in the relevant period over (y) $10.00 (being the exercise price per share) times (z) 12,545,330 (being a number of shares subject to the options before the application of potential anti-dilution). The terms of exercise under the options allow for exercise using cash, as well as, with the consent of the board of the company, certain forms of cashless exercise. Each of these prescribed methods of exercise may give rise to the issuance of a different number of shares than the approach described herein. If the options were to be surrendered for their intrinsic value with the board's consent, rather than exercised, the number of shares issued would equal the intrinsic value divided by the closing price of the shares as of the final trading day in the relevant period. This approach has been selected because we currently believe it is more reasonably illustrative of a likely outcome if the options are exercised. The options are exercisable until 26 April 2017.

**Appendix IV**

(33) Please see endnote 32.

## UNAUDITED FINANCIAL STATEMENTS

# TETRAGON FINANCIAL GROUP LIMITED

## FOR THE PERIOD ENDED 30 JUNE 2014

**TETRAGON FINANCIAL GROUP LIMITED**

**UNAUDITED FINANCIAL STATEMENTS**
**For the period ended 30 June 2014**

**CONTENTS**

# TETRAGON FINANCIAL GROUP LIMITED

## STATEMENTS OF ASSETS AND LIABILITIES
### As at 30 June 2014 (unaudited)

| | Note | 30 June 2014<br>US$ '000 | 31 Dec 2013<br>US$ '000 |
|---|---|---|---|
| **Assets** | | | |
| Investment in the Master Fund * | 3 | 1,827,851 | 1,846,731 |
| **Total assets** | | 1,827,851 | 1,846,731 |
| | | | |
| **Liabilities** | | | |
| Accrued incentive fee | 6 | 8,084 | 32,850 |
| Amounts payable on share options | 5 | 11,277 | 10,669 |
| **Total liabilities** | | 19,361 | 43,519 |
| | | | |
| **Net assets** | | 1,808,490 | 1,803,212 |
| | | | |
| **Equity** | | | |
| Share capital | 7 | 94 | 99 |
| Share premium | 8 | 913,983 | 963,224 |
| Capital reserve in respect of share options | 9 | 11,789 | 11,789 |
| Share based employee compensation reserve | 4 | 29,151 | 17,602 |
| Retained earnings | 12 | 853,473 | 810,498 |
| | | 1,808,490 | 1,803,212 |
| | | | |
| **Shares outstanding** | | **Number '000** | **Number '000** |
| Shares | 7 | 94,243 | 98,938 |
| | | | |
| **Net Asset Value per share** | | US$ 19.19 | US$ 18.23 |

*Tetragon Financial Group Master Fund Limited

The accompanying notes are an integral part of the financial statements.

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

Date: 29 July 2014

## TETRAGON FINANCIAL GROUP LIMITED

## STATEMENTS OF OPERATIONS
**For the period ended 30 June 2014 (unaudited)**

| | Note | Period ended 30 Jun 2014 US$ '000 | Period ended 30 Jun 2013 US$ '000 |
|---|---|---|---|
| **Investment income allocated from the Master Fund** | | | |
| Interest income | | 85,269 | 109,872 |
| Fee income | | 32,990 | 30,635 |
| Other income – cost recovery | | 11,402 | 10,314 |
| **Total investment income allocated from the Master Fund** | | 129,661 | 150,821 |
| **Direct expenses** | | | |
| Incentive fee | 6 | (18,740) | (24,354) |
| **Total direct expenses** | | (18,740) | (24,354) |
| **Operating expenses allocated from the Master Fund** | | | |
| Employee costs | | (21,359) | (17,771) |
| Management fees | 9 | (13,511) | (12,343) |
| Share based employee compensation | 4 | (11,548) | (11,548) |
| Legal and professional fees | | (9,208) | (2,772) |
| Audit fees | | (233) | (159) |
| Other operating and administrative expenses | | (13,910) | (12,565) |
| **Total operating expenses allocated from the Master Fund** | | (69,769) | (57,158) |
| **Total operating expenses** | | (88,509) | (81,512) |
| **Net investment income** | | 41,152 | 69,309 |
| **Net increase in unrealized depreciation on:** | | | |
| Share options | 5 | (608) | (2,718) |
| **Net increase in unrealized depreciation arising from direct operations** | | (608) | (2,718) |
| **Net realized and unrealized gain from investments and foreign currency allocated from the Master Fund** | | | |
| Net realized gain / (loss) from: | | | |
| Investments | | 87,981 | 5,026 |
| Derivative financial instruments | | (11,772) | - |
| Foreign currency transactions | | (1,080) | 219 |
| | | 75,129 | 5,245 |

## STATEMENTS OF OPERATIONS (continued)
## For the period ended 30 June 2014 (unaudited)

| | Note | Period ended 30 Jun 2014 US$ '000 | Period ended 30 Jun 2013 US$ '000 |
|---|---|---|---|
| Net (decrease) / increase in unrealized appreciation / (depreciation) on: | | | |
| Investments | | (36,452) | 12,290 |
| Derivative financial instruments | | (4,588) | 7,500 |
| Translation of assets and liabilities in foreign currencies | | (179) | (1,914) |
| | | (41,219) | 17,876 |
| **Net realized and unrealized gain from investments and foreign currencies allocated from the Master Fund** | | 33,910 | 23,121 |
| **Net increase from operations before tax** | | 74,454 | 89,712 |
| Income and deferred tax expense | | (2,516) | (2,316) |
| **Net income** | | 71,938 | 87,396 |
| **Earnings per share** | | | |
| Basic | 11 | US$ 0.75 | US$ 0.89 |
| Diluted | 11 | US$ 0.67 | US$ 0.79 |
| **Weighted average Shares outstanding** | | **Number '000** | **Number '000** |
| Basic | 11 | 95,989 | 97,979 |
| Diluted | 11 | 107,630 | 111,141 |

The accompanying notes are an integral part of the financial statements.

## TETRAGON FINANCIAL GROUP LIMITED

## STATEMENTS OF CHANGES IN NET ASSETS
**For the period ended 30 June 2014**

| | Note | Period ended 30 Jun 2014 US$ '000 | Period ended 30 Jun 2013 US$ '000 |
|---|---|---|---|
| From operations: | | | |
| Total investment income | | 129,661 | 150,821 |
| Total operating expenses | | (88,509) | (81,512) |
| Net unrealized depreciation on share options | | (608) | (2,718) |
| Net realized gain from investments and foreign currency allocated from the Master Fund | | 75,129 | 5,245 |
| Net unrealized gain from investments and foreign currency allocated from the Master Fund | | (41,219) | 17,876 |
| Income and deferred tax expense | | (2,516) | (2,316) |
| Net income | | 71,938 | 87,396 |
| Share based employee compensation | 4 | 11,548 | 11,548 |
| **Net increase in net assets resulting from operations** | | 83,486 | 98,944 |
| Dividends paid to shareholders | 10 | (28,963) | (26,425) |
| Issue of Shares | 7 | 1,670 | 2,369 |
| Purchase of Treasury Shares | 7 | (50,915) | (16,072) |
| **Decrease in net assets resulting from net share transactions** | | (49,245) | (13,703) |
| **Total increase in net assets** | | 5,278 | 58,816 |
| Net assets at start of period | | 1,803,212 | 1,621,448 |
| **Net assets at end of period** | | 1,808,490 | 1,680,264 |

The accompanying notes are an integral part of the financial statements.

## TETRAGON FINANCIAL GROUP LIMITED

## STATEMENTS OF CASH FLOWS
**For the period ended 30 June 2014**

| | Period ended 30 Jun 2014 US$ '000 | Period ended 30 Jun 2013 US$ '000 |
|---|---|---|
| **Operating activities** | | |
| Net income | 71,938 | 87,396 |
| | | |
| Adjustments for: | | |
| Net unrealized depreciation on share options | 608 | 2,718 |
| Share based employee compensation reserve | 11,548 | 11,548 |
| Net unrealized depreciation / (appreciation) on investment in the Master Fund | 18,880 | (36,969) |
| Operating cash flows before movements in working capital | 102,974 | 64,693 |
| | | |
| Decrease in payables | (24,766) | (24,565) |
| **Net cash provided by operating activities** | 78,208 | 40,128 |
| | | |
| **Financing activities** | | |
| Issue of Shares | 1,670 | 2,369 |
| Purchase of Treasury Shares | (50,915) | (16,072) |
| Dividends paid to shareholders | (28,963) | (26,425) |
| **Net cash used in financing activities** | (78,208) | (40,128) |
| | | |
| **Net increase in cash and cash equivalents** | - | - |
| Cash and cash equivalents at beginning of period | - | - |
| **Cash and cash equivalents at end of period** | - | - |

The accompanying notes are an integral part of the financial statements.

# TETRAGON FINANCIAL GROUP LIMITED

## FINANCIAL HIGHLIGHTS

**For the period ended 30 June 2014 (unaudited) and the year ended 31 December 2013 (audited)**

The following represents selected per Share operating performance of the Company, ratios to average net assets and total return information for the period ended 30 June 2014 and the year ended 31 December 2013.

| | 30 Jun 2014* | 31 Dec 2013 |
|---|---|---|
| | US$ | US$ |
| **Per Share operating performance** | | |
| Net Asset Value at the start of the period / year | 18.23 | 16.41 |
| Net investment income (excluding incentive fee) | 0.63 | 1.71 |
| Incentive fee | (0.20) | (0.66) |
| Net realized and unrealized gain from investments and foreign currencies | 0.35 | 1.33 |
| Share based employee compensation | 0.12 | 0.24 |
| Dividends paid to shareholders | (0.30) | (0.55) |
| Income and deferred tax expense | (0.03) | (0.09) |
| Other capital transactions | 0.39 | (0.16) |
| Net Asset Value at the end of the period / year | 19.19 | 18.23 |
| **Pro Forma Fully Diluted NAV per Share** | **Shares '000** | **Shares '000** |
| Shares outstanding | 94,243 | 98,938 |
| Shares held in escrow | 11,604 | 11,281 |
| Dilutive effect of Share options granted to Investment Manager | 37 | 13 |
| Pro Forma Fully Diluted Shares | 105,884 | 110,232 |
| Pro Forma Fully Diluted Net Asset Value per Share | US$ 17.08 | US$ 16.36 |
| Total return (NAV change excluding dividends and other capital transactions) before incentive fee | 5.85% | 19.40% |
| Incentive fee | (1.07%) | (4.03%) |
| Total return (NAV change excluding dividends and other capital transactions) after incentive fee | 4.78% | 15.37% |
| **Ratios and supplemental data** | | |
| Ratio to average net assets: | | |
| Operating expenses allocated from the Master Fund | 3.24% | 6.52% |
| Total operating expenses | 3.24% | 6.52% |
| Incentive fee | 1.04% | 3.85% |
| Net investment income | 2.29% | 6.07% |

* The ratios and returns have not been annualized.

An individual shareholder's per Share operating performance and ratios may vary from the above based on the timing of capital transactions.

### Note 1 General Information

Tetragon Financial Group Limited (the "Company") was registered in Guernsey on 23 June 2005 as a company limited by shares with registered number 43321. All voting shares of the Company are held by Polygon Credit Holdings II Limited (the "Voting Shareholder"). The Company continues to be registered and domiciled in Guernsey, and the Company's Shares are listed on Euronext Amsterdam N.V. The Company acts as a feeder fund in a "master feeder structure" investing substantially all of its assets in Tetragon Financial Group Master Fund Limited (the "Master Fund").

The registered office of the Company is 1st Floor Dorey Court, Admiral Park, St. Peter Port, Guernsey, Channel Islands, GY1 6HJ.

The Company's non-voting shares (referred to herein as the "Shares") are listed on Euronext Amsterdam N.V.

The Company's investment objective is to generate distributable income and capital appreciation. To achieve this objective, Tetragon Financial Management LP (the "Investment Manager") seeks to identify opportunities, assets and asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favorable transactions and terms for its investments in asset classes and in asset managers. As part of this current investment strategy, the Investment Manager may employ hedging strategies and leverage in seeking to provide attractive returns while managing risk.

The Company aims to provide stable returns to investors across various credit, equity, interest rate and real estate cycles, and maintains two key business segments: an investment portfolio and an asset-management platform. Both segments cover a broad range of assets including bank loans, real estate, equities, credit and convertible bonds. The Company currently invests primarily through long-term funding vehicles such as collateralized loan obligations.

The Company's asset-management platform ("TFG Asset Management") currently consists of Polygon Global Partners LP and Polygon Global Partners LLP (collectively with certain affiliates, "Polygon"), LCM Asset Management LLC ("LCM") and the joint venture with GreenOak Real Estate, LP ("GreenOak"). TFG Asset Management L.P. is registered as an investment adviser under the U.S. Investment Advisers Act of 1940 (the "Advisers Act") and one of its investment management entities, Polygon Global Partners LLP, is authorised and regulated by the United Kingdom Financial Conduct Authority.

### Note 2 Significant Accounting Policies

**Basis of Presentation**

The financial statements give a true and fair view, are prepared in conformity with U.S. GAAP and comply with The Companies (Guernsey) Law, 2008.

The Company's investment in the Master Fund is valued based on the Net Asset Value ("NAV") per share obtained from the Master Fund's Administrator, which is the Company's interest in the Net Assets of the Master Fund. The performance of the Company is directly affected by the performance of the Master Fund.

**Note 2 Significant Accounting Policies (continued)**

**Basis of Presentation (continued)**

The Company's Statements of Operations includes its allocated share of each type of gain, loss, income and expense of the Master Fund's Statements of Operations. Attached are the unaudited consolidated financial statements of the Master Fund, which are an integral part of these financial statements. As at 30 June 2014, the Company had 100% (31 December 2013: 100%) ownership interest in the Master Fund. As the Company owns 100% of the Master Fund and the unaudited consolidated financial statements of the Master Fund are attached, a separate Schedule of Investments for the Company has not been included.

For financial statement reporting purposes, the Company is an investment company and follows the measurement guidance set out in ASC 946, Financial Services – Investment Companies.

Except for new standards adopted, the accounting policies have been consistently applied by the Company during the period ended 30 June 2014 and are consistent with those used in the previous year.

The financial statements are presented in United States Dollars and rounded to the nearest thousand.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes, including the valuation of investments. The Company's management believes that the estimates utilized in preparing the financial statements are reasonable and prudent. Actual results could differ materially from these estimates.

**Valuation of Investments**

The value of the investment in the Master Fund is based on the NAV per share obtained from the Master Fund's Administrator.

**Expenses**

Expenses are recognized in the Statements of Operations on an accruals basis.

**Taxation**

The Company is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged GBP 600 per annum.

In accordance with ASC Subtopic 740-10 – Income Taxes – Overall, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. There were no uncertain tax positions recognized at 30 June 2014 (30 June 2013: Nil).

**Note 2 Significant Accounting Policies (continued)**

**Share Options**

The fair value of the options granted to the Investment Manager at the time of the Company's initial public offering in 2007, was recognized as a charge to a reserve in respect of the share options, over the year in which the Investment Manager became unconditionally entitled to the options. The options were fully vested and immediately exercisable from the date of the grant, on 26 April 2007 and remain exercisable for ten years.

The fair value of options issued to certain founding partners of GreenOak are recognized as a liability in the Statements of Assets and Liabilities, as the options contain certain other performance conditions. Any subsequent change in the fair value is recognized through the Statements of Operations.

**Dividend Expense**

Dividend expense from Shares are recognized in the Statements of Changes in Net Assets.

**Share Based Payments**

Share-based compensation expense for all equity settled share-based payment awards granted is determined based on the grant-date fair value. The Company recognizes these compensation costs net of an estimated forfeiture rate, and recognizes compensation cost only for those Shares expected to meet the service and performance vesting conditions, on a straightline basis over the requisite service period of the award. These compensation costs are determined at the aggregate grant level for service-based awards and at the individual vesting tranche level for awards with performance conditions.

When the Shares are actually issued the fair value of the Shares, as determined at the time of the award, is debited against the share based employee compensation reserve. Any associated stock dividends accrued on the original award are debited against retained earnings and credited to share capital and share premium using the value determined by the stock reference price at the date of each applicable dividend.

**Treasury Shares**

When share capital recognized as equity is repurchased the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased Shares may be classified as treasury Shares from an accounting perspective and are presented as a deduction from total equity. When treasury Shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from retained earnings. Shares may also be transferred out of the Treasury Account and into a wholly owned subsidiary. Where this occurs the status of the Shares is unchanged from an accounting perspective and they are not included in the Shares outstanding on the Statements of Assets and Liabilities.

**Note 3 Investment in Master Fund**

At the period end, the Master Fund held investments at fair value, management contracts, cash and cash equivalents, derivatives and other receivables and payables.

As at 30 June 2014, the Company had an investment of US$ 1,827.9 million in the Master Fund (31 December 2013: US$ 1,846.7 million).

**Note 4 Share Based Payments**

Polygon Management L.P. (now known as TFG Asset Management L.P.) and certain of its affiliates, including Polygon's asset management businesses and infrastructure platform, along with Polygon's interests in LCM and GreenOak, were acquired on 28 October 2012 (the "Acquisition"), in exchange for consideration of approximately 11.7 million non-voting Shares to the sellers subject to certain vesting and forfeiture conditions (the "Aggregate Consideration"). The Aggregate Consideration shall be held in escrow (along with accrued stock dividends) until it is released over the period 2013 to 2017.

Under ASC 805 - Business Combinations ("ASC 805") these Shares are treated as payment for post combination services rather than upfront consideration, hence the initial consideration is determined to be nil, resulting in a bargain purchase. The expense is recognized in the Master Fund through the Statements of Operations, as well as reflecting the assets acquired and a reserve to reflect the capital contribution of the Shares from the Company. The Company has a share based compensation reserve and recognizes the expense indirectly as allocated from the Master Fund. The charge for the period ended 30 June 2014 amounted to US$ 11.5 million (30 June 2013: US$ 11.5 million).

**Note 5 Share Options Issued to GreenOak**

On 16 September 2010, the Master Fund entered into a transaction with GreenOak whereby it received a 10% equity interest in GreenOak and agreed to provide, among other things, a working capital loan of up to US$ 10.0 million and a US$ 100.0 million co-investment commitment that is expected to fund up to a limited fixed percentage of any GreenOak sponsored investment program, with the Master Fund retaining the option to invest further amounts.

Under the terms of the transaction, the Company granted to the GreenOak founding partners ("Founders") options to purchase 3.9 million Shares (exercisable after 5 years and subject to further conditions) at a strike price of US$ 5.50. The aggregate fair value of the options granted at the transaction date was US$ 0.5 million. In order to reflect some key vesting requirements of the options which are not captured by the Black-Scholes model a 50% haircut was applied to the initial calculated valuation. This was derived as follows: restriction on transferability – 25%; requirement to repay working capital loan – 10%; exclusivity of Founders – 15%. These have been reviewed on a regular basis and as at 30 June 2014, the restriction on transferability is 10%, the requirement to repay the working capital loan is 5% and the exclusivity of Founders is 5%, reflecting the fact that the options are closer to their exercise dates. After this adjustment the haircut stands at 20% (31 December 2013: 20%).

The options are split approximately as follows: 50% exercisable 5 years after transaction date and expiring a year later; 25% exercisable 6 years after transaction date and expiring a year later; 25% exercisable 7 years after transaction date and expiring a year later.

**Note 5 Share Options Issued to GreenOak (continued)**

At 30 June 2014, the fair value of the options was US$ 11.3 million (31 December 2013: US$ 10.7 million).

**Note 6 Incentive Fee**

The Company pays the Investment Manager an incentive fee for each Calculation Period (a period of three months ending on 31 March, 30 June, 30 September and 31 December in each year or as otherwise determined by the Directors) equal to 25% of the increase in the NAV of the Company during the Calculation Period (before deduction of any dividend paid or the amount of any redemptions or repurchases of the Shares (or other relevant capital adjustments) during such Calculation Period) above the Reference NAV (as defined below) plus the Hurdle (as defined below) for the Calculation Period. If the Hurdle is not met in any Calculation Period (and no incentive fee is paid), the shortfall will not carry forward to any subsequent Calculation Period.

The “Hurdle” for any Calculation Period will equal the Reference NAV multiplied by the Hurdle Rate (as defined below). The Hurdle Rate for any Calculation Period equals 3-month USD LIBOR determined as of 11:00 a.m. London time on the first London business day of the then current Calculation Period, plus the Hurdle Spread of 2.647858% in each case multiplied by the actual number of days in the Calculation Period divided by 365.

The “Reference NAV” is the greater of (i) NAV at the end of the Calculation Period immediately preceding the current Calculation Period and (ii) the NAV as of the end of the Calculation Period immediately preceding the Calculation Period referred to in clause (i). For the purpose of determining the Reference NAV at the end of a Calculation Period, NAV shall be adjusted by the amount of accrued dividends and the amounts of any redemptions or repurchase of the Shares (or other relevant capital adjustments) and incentive fees to be paid with respect to that Calculation Period.

The incentive fee in respect of each Calculation Period is calculated by reference to the NAV before deduction of any accrued incentive fee. If the Investment Management Agreement is terminated other than at the end of a Calculation Period, the date of termination will be deemed to be the end of the Calculation Period. The incentive fee is normally payable in arrears after the end of the Calculation Period.

The incentive fee for the period ended 30 June 2014 was US$ 18.7 million (30 June 2013: US$ 24.4 million). As at 30 June 2014, US$ 8.1 million was outstanding (31 December 2013: US$ 32.9 million).

**Note 7 Share Capital**

**Authorized**

The Company has an authorized share capital of US$ 1.0 million divided into 10 voting shares, having a par value of US$ 0.001 each and 999,999,990 non-voting Shares, each having a par value of US$ 0.001 each. Shares are issuable either as certificated shares or uncertificated shares, and in both cases as registered shares in accordance with applicable law.

**Note 7 Share Capital (continued)**

**Voting Shares**

The 10 voting shares in issue were issued at par and are owned by the Voting Shareholder, which is a non-U.S. affiliate of the Investment Manager.

The voting shares are the only shares of the Company entitled to vote for the election of Directors and on all other matters put to a vote of shareholders, subject to the limited rights of the Shares described below. The voting shares are not entitled to receive dividends.

**Shares**

The Shares are not entitled to vote on any matter other than limited voting rights in respect of variation of their class rights. The Shares carry a right to any dividends or other distributions declared by the Company. The Shares are subject to certain transfer restrictions as set out in the Company's Memorandum and Articles of Incorporation.

The Directors, upon the recommendation of the Investment Manager and with prior approval of a resolution of voting shares, may allot, issue or otherwise dispose of Shares to such persons, at such times, for such consideration and on such terms and conditions as they deem necessary or desirable. There are no pre-emption rights attaching to any Shares.

The Directors, upon the recommendation of the Investment Manager, may grant options over the Shares. The Company may repurchase Shares and hold such repurchased Shares as Treasury Shares.

**Share Transactions**

| | Voting Shares No. | Shares No. '000 | Shares US$ '000 |
|---|---|---|---|
| Shares in issue at 31 December 2012 | 10 | 98,805 | 99 |
| Issued in lieu of stock dividend | - | 413 | - |
| Issued through release of tranche of Escrow Shares | - | 1,165 | 1 |
| Treasury Shares purchased during the year | - | (1,445) | (1) |
| Shares in issue at 31 December 2013 | 10 | 98,938 | 99 |
| Issued in lieu of stock dividend | - | 159 | - |
| Treasury Shares purchased during the period | - | (4,854) | (5) |
| Shares in issue at 30 June 2014 | 10 | 94,243 | 94 |

**Optional Stock Dividend**

The Company has an Optional Stock Dividend Plan which offers investors an opportunity to elect to receive any declared dividend in the form of dividend shares at a reference price determined by calculating the five-day weighted average price post ex-dividend date.

**Note 7 Share Capital (continued)**

**Optional Stock Dividend (continued)**

During the period a total dividend of US$ 29.0 million (30 June 2013: US$ 26.4 million) was declared, of which US$ 27.3 million was paid out as a cash dividend (30 June 2013: US$ 24.1 million), and the remaining US$ 1.7 million (30 June 2013: US$ 2.3 million) was reinvested under the Optional Stock Dividend Plan.

**Treasury Shares**

The Company owns a subsidiary, TFG Holdings I, to which it may transfer, and has transferred, Shares previously held in a Treasury Account. Where this occurs the status of the Shares is unchanged from an accounting perspective and they are not included in the Shares outstanding on the Statements of Assets and Liabilities.

On 30 November 2007, the Company announced the implementation of a share repurchase program ("Program") of their outstanding Shares. This was renewed on several occasions, most recently on 14 January 2013 running until 30 April 2013 when it expired. As at 30 June 2014 there was no share repurchase program in place.

When the Program was in operation, the Master Fund had undertaken to repurchase an identical number of its own shares from the Company as and when it made these repurchases in the open market. The Master Fund matched the price per share paid by the Company. The shares are held in a Treasury Account or in a subsidiary, allowing them to potentially be resold back to the Company if it resells its own Shares back into the market at a later date. Whilst they are held by the Master Fund (whether directly or via a subsidiary), the Shares are neither eligible to receive dividends nor are they included in the Shares outstanding on the Statements of Assets and Liabilities.

On 11 March 2014, the Company and the Master Fund announced that under the terms of a “modified Dutch auction” tender offer (the “Tender Offer”) it had accepted for purchase approximately 4.9 million non-voting shares of the Company at a purchase price of US$ 10.30 per share and an aggregate cost of US$ 50.9 million, including applicable fees and expenses. The repurchased Shares were exchanged with the Company for the identical amount of Master Fund Shares and both sets of shares were transferred to the Treasury Account.

After giving effect to the Tender Offer, as at 30 June 2014, 16.6 million Shares are held in TFG Holdings I (31 December 2013: 16.6 million) and 12.8 million Shares in the Treasury Account (31 December 2013: 7.9 million), with an aggregate attributed cost of US$ 261.0 million (31 December 2013: US$ 210.1 million).

| | Treasury Shares | Shares held in subsidiary |
|---|---|---|
| | Shares | Shares |
| | No. ‘000 | No. ‘000 |
| Treasury Shares at 31 December 2012 | 6,503 | 16,604 |
| Treasury Shares purchased during the year | 1,445 | - |
| Treasury Shares at 31 December 2013 | 7,948 | 16,604 |
| Treasury Shares purchased during the period | 4,854 | - |
| Treasury Shares at 30 June 2014 | 12,802 | 16,604 |

## Note 8 Share Premium

| | 30 Jun 2014<br>US$ '000 | 31 Dec 2013<br>US$ '000 |
|---|---|---|
| Balance at start of period / year | 963,224 | 964,966 |
| Premium arising on issuance of Shares | 1,669 | 14,329 |
| Discount arising from purchase of Shares | (50,910) | (16,071) |
| Balance at end of period / year | 913,983 | 963,224 |

## Note 9 Related Party Transactions

The Investment Manager is entitled to receive management fees equal to 1.5% per annum of the Net Asset Value of the Company payable monthly in advance prior to the deduction of any accrued incentive fee. All fees and expenses of the Company including the Management and Administration fees, but excluding incentive fees from the Investment Manager, are paid by the Master Fund and allocated fully to the Company. An incentive fee may be paid to the Investment Manager as disclosed in Note 6.

In recognition of the work performed by the Investment Manager in successfully arranging the global offering and the associated raising of new capital for the Company, in 2007 the Company granted to the Investment Manager options (the "Investment Management Options") to purchase approximately 12.5 million of the Company's Shares (before any application of potential anti-dilution) at an exercise price per share equal to the Offer Price (US$ 10.00). The Investment Management Options were fully vested and immediately exercisable on the date of admission to Euronext Amsterdam N.V. and will remain exercisable until the 10th anniversary of that date. The aggregate fair value of the options granted at the time of the global offering was US$ 11.8 million. The fair value of each option granted during 2007 was US$ 0.94 on the date of grant using the Binomial-pricing model with the following average assumptions: expected dividend yield 8%, risk-free interest rate of 5.306%, an expected life of 5 years and a volatility of 17.5%.

The Company invests substantially all of its assets in the Master Fund, a Guernsey based closed-ended investment company which has the same Investment Manager as the Company.

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. Effective 1 January 2014, each of the Directors' annual fee is US$ 100,000 in compensation for service on the Boards of Directors of both the Company and the Master Fund. The Master Fund will pay the Directors' fees. Paddy Dear and Reade Griffith have waived their entitlement to a fee in respect of their services as Directors. The Directors are entitled to be repaid by the Company all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Company or the Master Fund providing for benefits upon termination of employment.

The Voting Shareholder is an affiliate of the Investment Manager and holds all of the voting shares. As a result of its ownership and the degree of control that it exercises, the Voting Shareholder will be able to control the appointment and removal of the Company's Directors (subject to applicable law). Affiliates of the Voting Shareholder also control the Investment Manager and, accordingly, control the Company's business and affairs.

**Note 9 Related Party Transactions (continued)**

Paddy Dear, Reade Griffith, and Rupert Dorey - all Directors of the Company and the Master Fund – maintained (directly or indirectly) interests in Shares of the Company as at 30 June 2014, with interests of 411,947 and 1,243,327 and 93,661 Shares respectively (31 December 2013: 386,413, 1,186,209 and 92,311 Shares respectively). Messrs, Griffith and Dear also have a (direct or indirect) interest in the Escrow Shares (as defined below).

As described in Note 4 Polygon Management L.P. (now known as TFG Asset Management L.P.), including Polygon's asset management businesses and infrastructure platform, and interests in LCM and GreenOak, was acquired on 28 October 2012. The Shares issued in consideration are subject to vesting and forfeiture conditions and will be held in escrow until they vest over the period 2013 to 2017. These escrow Shares are eligible to participate in the optional stock dividend program, and as a result of subsequent dividends, further Shares were added to the relevant escrow accounts. As part of the Acquisition, Messrs. Griffith and Dear, as founders of Polygon, were awarded consideration in Shares which would vest between 2015 and 2017.

In particular, Messrs. Griffith and Dear, were initially allocated 5,539,954 and 1,955,291 Shares, respectively, and these are currently held in escrow pending release between 2015 and 2017. As at 30 June 2014, 6,077,380 Shares were held in escrow on behalf of Mr. Griffith (31 December 2013: 5,908,198 Shares) and 2,144,963 on behalf of Mr. Dear (31 December 2013: 2,085,254 Shares).

It was also contractually agreed at the time of the Acquisition that they would be entitled to total annual compensation in respect of their executive role with the Company and its subsidiaries totaling not more than US$ 100,000 each. During the period ended 30 June 2014 total compensation paid to them each in this capacity by the Master Fund in aggregate was US$ 50,000.

**Note 10 Dividends**

| | 30 Jun 2014<br>US$<br>'000 | 30 Jun 2013<br>US$<br>'000 |
|---|---|---|
| Quarter ended 31 December 2012 of US$ 0.135 per share | - | 13,266 |
| Quarter ended 31 March 2013 of US$ 0.135 per share | - | 13,159 |
| Quarter ended 31 December 2013 of US$ 0.15 per share | 14,841 | - |
| Quarter ended 31 March 2014 of US$ 0.15 per share | 14,122 | - |
| | 28,963 | 26,425 |

The second quarter dividend of US$ 0.155 per share was approved by the Directors on 29 July 2014 and has not been included as a liability in these financial statements.

## Note 11 Earnings per Share

| | Period ended 30 Jun 2014 US$ '000 | Period ended 30 Jun 2013 US$ '000 |
|---|---|---|
| The calculation of the basic and diluted earnings per share is based on the following data: | | |
| Earnings for the purposes of basic earnings per share being net profit attributable to shareholders for the period | 71,938 | 87,396 |
| Weighted average number of Shares for the purposes of basic earnings per share | 95,989 | 97,979 |
| Effect of dilutive potential Shares: | | |
| Share based employee compensation | 11,604 | 12,126 |
| Share options | 37 | 1,036 |
| Weighted average number of Shares for the purposes of diluted earnings per share | 107,630 | 111,141 |

Diluted earnings per share is calculated by adjusting the weighted average number of Shares outstanding assuming conversion of all potential dilutive Shares. Share options and share based employee compensation are potential dilutive Shares.

In respect of share based employee compensation, it is assumed that all of the Shares currently held in escrow will be released, thereby increasing the weighted average number of Shares. This includes Shares which are scheduled to vest and be released between 2014 and 2017.

In respect of share options, the intrinsic value of the Shares issued to the Investment Manager in connection with the global offering in 2007 (see Note 9) is calculated using the Company's quoted Share price on the last business day prior to the year end. This is then converted into a number of Shares by dividing the aforementioned intrinsic value by the aforementioned quoted Share price. This will yield the number of Shares to include in the dilution calculation.

In respect of share options issued to GreenOak, there was no dilution as the conditions on these options have not been met at the date of these financial statements.

## Note 12 Retained Earnings

| | 30 Jun 2014 US$ '000 | 31 Dec 2013 US$ '000 |
|---|---|---|
| Balance at start of period / year | 810,498 | 640,745 |
| Net increase in net assets resulting from operations for the period / year | 71,938 | 224,267 |
| Dividends paid | (28,963) | (53,922) |
| Stock dividends on Shares released from Escrow | - | (592) |
| Balance at end of period / year | 853,473 | 810,498 |

**Note 13 Other Matters**

On 18 June 2013, a shareholder derivative action was filed in United States District Court – Southern District of New York – against the six directors of the Company and the Master Fund, the Investment Manager, the principals of the Investment Manager and other affiliated entities by a purported shareholder of the Company (the "Action").

The Action makes a series of allegations including with respect to the Acquisition (see Note 4) and asks, amongst other things, for money damages and equitable relief against the defendants, including the termination of the investment management agreement among the Company, the Master Fund and the Investment Manager.

The Company, the Master Fund and their Boards of Directors have stated that they believe that the Action is factually and legally without merit and intend to seek to have the Action dismissed as quickly as possible. On 13 January 2014, all defendants filed a motion to dismiss the Action in its entirety. The Court heard oral argument on defendants' motion to dismiss on 23 May 2014.

**Note 14 Subsequent Events**

Effective 23 July 2014, Mr. Frederic M. Hervouet has been appointed as an Independent Director of the Company and the Master Fund and will also serve on the Audit Committees of both. Apart from the aforementioned event, the Directors have evaluated the period up to 29 July, which is the date the financial statements were approved, and have concluded that there are no further material events that require disclosure or adjustment to the financial statements.

**Note 15 Recent changes to U.S. GAAP**

In June 2013, the FASB issued ASU No. 2013-08, "Financial Services - Investment Companies (Topic 946) - Amendments to the Scope, Measurement, and Disclosure Requirements." ASU No. 2013-08 clarifies the approach to be used for determining whether an entity is an investment company and provides new measurement and disclosure requirements. ASU No. 2013-08 is now effective for interim and annual reporting periods in fiscal years that begin after 15 December 2013 and its adoption has not materially affected the Company's financial condition, results of operations, or cash flows.

**Note 16 Approval of Financial Statements**

The Directors approved the financial statements on 29 July 2014.

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

# TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

**FOR THE PERIOD ENDED 30 JUNE 2014**

**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**

**UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**
**For the period ended 30 June 2014**

## CONTENTS

## TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

## CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
**As at 30 June 2014 (unaudited)**

| | Note | 30 Jun 2014 US$ '000 | 31 Dec 2013 US$ '000 |
|---|---|---|---|
| **Assets** | | | |
| Investments, at fair value | 2, 3 | 1,445,397 | 1,532,980 |
| Management contracts | 2, 4 | 33,122 | 36,544 |
| Cash and cash equivalents | 6 | 258,858 | 245,912 |
| Amounts due from brokers | 8 | 72,950 | 41,975 |
| Derivative financial assets | 3, 7 | 13,255 | 15,159 |
| Fixed assets | 2 | 227 | 276 |
| Deferred tax asset | 15 | 7,731 | 7,711 |
| Prepaid income tax | 15 | 980 | 562 |
| Other receivables | 9 | 40,682 | 26,588 |
| **Total assets** | | 1,873,202 | 1,907,707 |
| **Liabilities** | | | |
| Derivative financial liabilities | 3, 7 | 3,943 | 3,261 |
| Other payables and accrued expenses | 10 | 31,771 | 46,998 |
| Income tax payable | 15 | 421 | 600 |
| Deferred tax liability | 15 | 9,216 | 10,117 |
| **Total liabilities** | | 45,351 | 60,976 |
| **Net assets** | | 1,827,851 | 1,846,731 |
| **Equity** | | | |
| Share capital | 11 | 94 | 99 |
| Share premium | 12 | 873,207 | 922,447 |
| Retained earnings | 14 | 925,400 | 906,583 |
| Capital contribution | 2, 19 | 29,150 | 17,602 |
| | | 1,827,851 | 1,846,731 |
| **Shares outstanding** | | **Number '000** | **Number '000** |
| Shares | 11 | 94,243 | 98,938 |
| **Net Asset Value per share** | | US$ 19.40 | US$ 18.67 |

The accompanying notes are an integral part of the consolidated financial statements.

Signed on behalf of the Board of Directors by:

Rupert Dorey, Director
David Jeffreys, Director

Date: 29 July 2014

## TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

## CONSOLIDATED STATEMENTS OF OPERATIONS
**For the period ended 30 June 2014 (unaudited)**

| | Note | Period ended 30 Jun 2014 US$ '000 | Period ended 30 Jun 2013 US$ '000 |
|---|---|---|---|
| Interest income | 16 | 85,269 | 109,872 |
| Fee income | 17 | 32,990 | 30,635 |
| Other income – cost recovery | 2, 21 | 11,402 | 10,314 |
| **Investment income** | | 129,661 | 150,821 |
| Employee costs | 21 | (21,359) | (17,771) |
| Management fees | 21 | (13,511) | (12,343) |
| Share based employee compensation | 19 | (11,548) | (11,548) |
| Legal and professional fees | 22 | (9,208) | (2,772) |
| Audit fees | | (233) | (159) |
| Other operating and administrative expenses | | (13,910) | (12,565) |
| **Operating expenses** | | (69,769) | (57,158) |
| **Net investment income** | | 59,892 | 93,663 |
| **Net realized and unrealized gain from investments and foreign currency** | | | |
| Net realized gain / (loss) from: | | | |
| Investments | | 87,981 | 5,026 |
| Derivative financial instruments | | (11,772) | - |
| Foreign currency transactions | | (1,080) | 219 |
| | | 75,129 | 5,245 |
| Net (decrease) / increase in unrealized (depreciation) / appreciation on: | | | |
| Investments | | (36,452) | 12,290 |
| Derivative financial instruments | | (4,588) | 7,500 |
| Translation of assets and liabilities in foreign currencies | | (179) | (1,914) |
| | | (41,219) | 17,876 |
| **Net realized and unrealized gain from investments and foreign currency** | | 33,910 | 23,121 |
| **Net increase from operations before tax** | | 93,802 | 116,784 |
| Income and deferred tax expense | 15 | (2,516) | (2,316) |
| **Net income** | | 91,286 | 114,468 |

The accompanying notes are an integral part of the consolidated financial statements.

## TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
**For the period ended 30 June 2014 (unaudited)**

| | Note | Period ended 30 Jun 2014 US$ '000 | Period ended 30 Jun 2013 US$ '000 |
|---|---|---|---|
| From operations: | | | |
| Net investment income | | 59,892 | 93,663 |
| Net realized gain from investments and foreign currency | | 75,129 | 5,245 |
| Net increase in unrealized appreciation on investments and translation of assets and liabilities in foreign currencies | | (41,219) | 17,876 |
| Income and deferred tax expense | 15 | (2,516) | (2,316) |
| Net income after tax | | 91,286 | 114,468 |
| Share based employee compensation | | 11,548 | 11,548 |
| **Net increase in net assets resulting from operations** | | 102,834 | 126,016 |
| Dividends paid to Feeder | 13 | (43,506) | (48,920) |
| Dividends paid to other shareholders | 13 | (28,963) | (26,425) |
| **Total distributions** | | (72,469) | (75,345) |
| Issue of Shares | 11 | 1,670 | 2,369 |
| Purchase of Treasury Shares | 11 | (50,915) | (16,072) |
| **Decrease in net assets resulting from capital transactions** | | (49,245) | (13,703) |
| **Total (decrease) / increase in net assets** | | (18,880) | 36,968 |
| **Net assets at start of period** | | 1,846,731 | 1,658,276 |
| **Net assets at end of period** | | 1,827,851 | 1,695,244 |

The accompanying notes are an integral part of the consolidated financial statements.

## TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

## CONSOLIDATED STATEMENTS OF CASH FLOWS
**For the period ended 30 June 2014 (unaudited)**

| | Period ended 30 Jun 2014 US$ '000 | Period ended 30 Jun 2013 US$ '000 |
|---|---|---|
| **Operating activities** | | |
| Net income | 91,286 | 114,468 |
| | | |
| Adjustments for: | | |
| Realized gains on investments and derivatives | (76,209) | (5,026) |
| Cash received on investments in excess of interest income | 107,741 | 129,630 |
| Amortization on intangible assets | 3,422 | 3,429 |
| Depreciation on fixed assets | 123 | 95 |
| Share based employee compensation | 11,548 | 11,548 |
| Unrealized losses / (gains) | 41,219 | (17,876) |
| Deferred tax | (921) | (3,432) |
| Operating cash flows before movements in working capital | 178,209 | 232,836 |
| | | |
| Decrease in receivables | 12,593 | 681 |
| Decrease in payables | (15,406) | (899) |
| Cash flows from operations | 175,396 | 232,618 |
| | | |
| Purchase of fixed assets | (74) | (299) |
| Proceeds from sale / prepayment / maturity of investments | 169,758 | 91,655 |
| Net payment on swap resets | (11,772) | - |
| Purchase of investments | (167,490) | (146,867) |
| **Net cash provided by operating activities** | 165,818 | 177,107 |
| | | |
| **Financing activities** | | |
| Amounts due from brokers | (30,975) | (20,009) |
| Proceeds from issue of Shares | 1,670 | 2,369 |
| Treasury Shares | (50,915) | (16,072) |
| Dividends paid to shareholders | (28,963) | (26,425) |
| Dividends paid to Feeder in lieu of incentive fee liability | (43,506) | (48,920) |
| **Net cash used in financing activities** | (152,689) | (109,057) |
| | | |
| Net increase in cash and cash equivalents | 13,129 | 68,050 |
| **Cash and cash equivalents at beginning of period** | 245,912 | 175,941 |
| Effect of exchange rate fluctuations on cash and cash equivalents | (183) | (205) |
| **Cash and cash equivalents at end of period** | 258,858 | 243,786 |

The accompanying notes are an integral part of the consolidated financial statements.

## TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS
**As at 30 June 2014 (unaudited)**

| Security Description | Nominal '000 | Cost US$ '000 | Fair Value US$ '000 | % of Net Assets |
|---|---|---|---|---|
| *United States CLO Equity* | | | | |
| *Cayman Islands* | | | | |
| ABS and Structured Finance | 18,400 | 17,572 | - | 0.00% |
| Broadly Syndicated Senior Secured Loans | 1,122,143 | 1,020,791 | 704,737 | 38.56% |
| CDOs Squared | 17,250 | 16,640 | - | 0.00% |
| Middle Market Senior Secured Loans | 211,382 | 195,892 | 81,818 | 4.48% |
| | 1,369,175 | 1,250,895 | 786,555 | 43.04% |
| *European CLO Equity* | | | | |
| *Ireland* | | | | |
| Broadly Syndicated Senior Secured Loans | 101,400 | 121,520 | 67,433 | 3.69% |
| | 101,400 | 121,520 | 67,433 | 3.69% |
| *Luxembourg* | | | | |
| Broadly Syndicated Senior Secured Loans | 71,100 | 84,317 | 55,843 | 3.06% |
| | 71,100 | 84,317 | 55,843 | 3.06% |
| *Netherlands* | | | | |
| Broadly Syndicated Senior Secured Loans | 24,000 | 31,759 | 21,838 | 1.19% |
| | 24,000 | 31,759 | 21,838 | 1.19% |
| *United States CLO Mezzanine* | | | | |
| *Cayman Islands* | | | | |
| Broadly Syndicated Senior Secured Loans | 1,750 | 1,103 | 1,721 | 0.09% |
| | 1,750 | 1,103 | 1,721 | 0.09% |
| *Loans* | | | | |
| United States Broadly Syndicated Senior Secured Loans | 24,610 | 24,409 | 24,705 | 1.35% |
| Global Unsecured Loan | 7,730 | 7,730 | 8,745 | 0.48% |
| | 32,340 | 32,139 | 33,450 | 1.83% |
| *Listed Stock* | | | | |
| Germany – Equity Investments | | 45 | 49 | 0.00% |
| United Kingdom – Equity Investments | | 33,298 | 34,501 | 1.89% |
| | | 33,343 | 34,550 | 1.89% |
| *Unlisted Stock* | | | | |
| Global Financial Real Estate Investment Manager | | 10,728 | 34,070 | 1.86% |
| Norway – Equity Investments | | 2,092 | 2,038 | 0.11% |
| | | 12,820 | 36,108 | 1.97% |
| *Investment Funds* | | | | |
| United States – Real Estate | | 31,971 | 33,759 | 1.85% |
| Japan – Real Estate | | 21,796 | 22,301 | 1.22% |
| Spain – Real Estate | | 26,643 | 26,441 | 1.45% |
| United Kingdom – Real Estate | | 8,416 | 12,554 | 0.69% |
| Global – Hedge Funds – Equities | | 55,000 | 58,415 | 3.20% |
| Polygon European Equity Opportunity Fund* | | 105,000 | 134,231 | 7.33% |
| Global – Hedge Funds – Credit and Convertible Bonds | | 105,000 | 120,198 | 6.58% |
| | | 353,826 | 407,899 | 22.32% |
| **Total Investments** | | **1,921,722** | **1,445,397** | **79.08%** |

*The investment in the Polygon European Equity Opportunity Fund consists of 529,384 units in Class A, 355,786 units in Class B and 154,838 units in Class C as at 30 June 2014.

## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (continued)
## As at 30 June 2014 (unaudited)

| **Financial Derivative Instruments** | **Fair Value US$ '000** | **% of Net Assets** |
|---|---|---|
| Interest Rate Swaptions | 4,500 | 0.25% |
| Forward Foreign Currency Exchange Contracts | (1,237) | (0.07%) |
| Equity Total Return Swaps | 6,049 | 0.33% |
| **Total Financial Derivative Instruments** | 9,312 | 0.51% |
| Cash and Cash Equivalents | 258,858 | 14.16% |
| Other Assets and Liabilities | 114,284 | 6.25% |
| **Net Assets** | 1,827,851 | 100.00% |

## TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (continued)
**As at 31 December 2013**

| **Security Description** | **Nominal '000** | **Cost US$ '000** | **Fair Value US$ '000** | **% of Net Assets** |
|---|---|---|---|---|
| *United States CLO Equity* | | | | |
| *Cayman Islands* | | | | |
| ABS and Structured Finance | 18,400 | 17,572 | - | - |
| Broadly Syndicated Senior Secured Loans | 1,221,034 | 1,104,937 | 798,620 | 43.25% |
| CDOs Squared | 17,250 | 16,640 | - | - |
| Middle Market Senior Secured Loans | 245,249 | 227,357 | 137,524 | 7.45% |
| | 1,501,933 | 1,366,506 | 936,144 | 50.70% |
| *European CLO Equity* | | | | |
| *Ireland* | | | | |
| Broadly Syndicated Senior Secured Loans | 127,400 | 155,917 | 101,771 | 5.51% |
| | 127,400 | 155,917 | 101,771 | 5.51% |
| *Luxembourg* | | | | |
| Broadly Syndicated Senior Secured Loans | 71,100 | 84,317 | 59,916 | 3.24% |
| | 71,100 | 84,317 | 59,916 | 3.24% |
| *Netherlands* | | | | |
| Broadly Syndicated Senior Secured Loans | 24,000 | 31,759 | 22,656 | 1.23% |
| | 24,000 | 31,759 | 22,656 | 1.23% |
| *United States CLO Mezzanine* | | | | |
| *Cayman Islands* | | | | |
| Broadly Syndicated Senior Secured Loans | 1,750 | 1,103 | 1,699 | 0.09% |
| | 1,750 | 1,103 | 1,699 | 0.09% |
| *Loans* | | | | |
| United States Broadly Syndicated Senior Secured Loans | 33,816 | 33,482 | 34,017 | 1.84% |
| Global Unsecured Loan | 10,000 | 10,000 | 11,069 | 0.60% |
| | 43,816 | 43,482 | 45,086 | 2.44% |
| *Listed Stock* | | | | |
| Germany – Equity Investments | | 45 | 49 | 0.00% |
| United Kingdom – Equity Investments | | 10,812 | 11,158 | 0.61% |
| | | 10,857 | 11,207 | 0.61% |
| *Unlisted Stock* | | | | |
| Global Financial Real Estate Investment Manager | | 10,728 | 28,400 | 1.54% |
| | | 10,728 | 28,400 | 1.54% |
| *Investment Funds* | | | | |
| United States – Real Estate | | 26,658 | 26,791 | 1.45% |
| Japan – Real Estate | | 12,296 | 10,820 | 0.59% |
| United Kingdom – Real Estate | | 22,148 | 23,159 | 1.25% |
| Global – Hedge Funds – Equities | | 55,000 | 56,554 | 3.06% |
| Polygon European Equity Opportunity Fund* | | 105,000 | 124,570 | 6.74% |
| Global – Hedge Funds – Credit and Convertible Bonds | | 80,000 | 84,207 | 4.57% |
| | | 301,102 | 326,101 | 17.66% |
| **Total Investments** | | **2,005,771** | **1,532,980** | **83.02%** |

*The investment in the Polygon European Equity Opportunity Fund consists of 515,988 units in Class A, 355,786 units in Class B and 154,838 units in Class C as at 31 December 2013.

## CONSOLIDATED CONDENSED SCHEDULE OF INVESTMENTS (continued)
## As at 31 December 2013

| **Financial Derivative Instruments** | **Fair Value US$ '000** | **% of Net Assets** |
|---|---|---|
| Interest Rate Swaptions | 12,050 | 0.65% |
| Forward Foreign Currency Exchange Contracts | (3,183) | (0.17)% |
| Equity Total Return Swaps | 3,031 | 0.16% |
| **Total Financial Derivative Instruments** | 11,898 | 0.64% |
| Cash and Cash Equivalents | 245,912 | 13.31% |
| Other Assets and Liabilities | 55,941 | 3.03% |
| **Net Assets** | 1,846,731 | 100.00% |

## TETRAGON FINANCIAL GROUP MASTER FUND LIMITED

## FINANCIAL HIGHLIGHTS
### For the period ended 30 June 2014 (unaudited) and 31 December 2013 (audited)

The following represents selected per Share operating performance of the Fund, ratios to average net assets and total return information for the period ended 30 June 2014 and the year ended 31 December 2013.

| | 1 Jan 2014 to 30 June 2014* | 1 Jan 2013 to 31 Dec 2013 |
|---|---|---|
| | US$ | US$ |
| **Per Share operating performance** | | |
| Net Asset Value at start of period / year | 18.67 | 16.78 |
| Net investment income | 0.63 | 1.71 |
| Net realized and unrealized gain from investments, derivatives and foreign currencies | 0.35 | 1.37 |
| Share based employee compensation | 0.12 | 0.24 |
| Dividends paid to shareholders | (0.76) | (1.19) |
| Income and deferred tax expense and noncontrolling interest | (0.03) | (0.09) |
| Other capital transactions | 0.42 | (0.15) |
| Net Asset Value at the end of the period / year | 19.40 | 18.67 |
| **Pro Forma Fully Diluted NAV per Share** | | |
| | Shares '000 | Shares '000 |
| Shares outstanding | 94,243 | 98,938 |
| Shares held in escrow | 11,604 | 11,281 |
| Pro Forma Fully Diluted Shares | 105,847 | 110,219 |
| Pro Forma Fully Diluted Net Asset Value per Share | US$ 17.27 | US$ 16.76 |
| Return (NAV change excluding dividends and other capital transactions) | 5.62% | 19.25% |
| **Ratios and supplemental data** | | |
| Ratio to average net assets: | | |
| Total operating expenses | 3.19% | 6.44% |
| Net investment income | 3.29% | 9.80% |

An individual shareholder's per Share operating performance and ratios may vary from the above based on the timing of capital transactions.

*The ratios and returns have not been annualized.

## Note 1 General Information

Tetragon Financial Group Master Fund Limited (the "Fund") was registered in Guernsey on 23 June 2005 as a company limited by shares, with registered number 43322. All voting shares of the Fund are held by Polygon Credit Holdings II Limited (the "Voting Shareholder"). The Fund continues to be registered and domiciled in Guernsey.

The Fund owns a number of operating business subsidiaries, including those resulting from the acquisition of TFG Asset Management L.P. (formerly known as Polygon Management L.P.) and certain of its affiliates, including its asset management businesses (the "Acquisition"). The Fund consolidates in these financial statements, the income and expense and assets and liabilities of entities where appropriate, and in accordance with the accounting policy on consolidation detailed in Note 2.

The registered office of the Fund is 1st Floor Dorey Court, Admiral Park, St. Peter Port, Guernsey, Channel Islands GY1 6HJ.

The Fund's investment objective is to generate distributable income and capital appreciation. To achieve this objective, Tetragon Financial Management LP (the "Investment Manager") seeks to identify opportunities, assets and asset classes it believes to be attractive and asset managers it believes to be superior based on their track record and expertise. It also seeks to use the market experience of the Investment Manager to negotiate favorable transactions and terms for its investments in asset classes and in asset managers. As part of this current investment strategy, the Investment Manager may employ hedging strategies and leverage in seeking to provide attractive returns while managing risk.

The Fund aims to provide stable returns to investors across various credit, equity, interest rate and real estate cycles, and maintains two key business segments: an investment portfolio and an asset-management platform. Both segments cover a broad range of assets including bank loans, real estate, equities, credit and convertible bonds. The Fund currently invests primarily through long-term funding vehicles such as collateralized loan obligations.

The Fund's asset-management platform ("TFG Asset Management") currently consists of Polygon Global Partners LP and Polygon Global Partners LLP (collectively with certain affiliates, "Polygon"), LCM Asset Management LLC ("LCM") and the joint venture with GreenOak Real Estate, LP ("GreenOak"). TFG Asset Management L.P. is registered as an investment adviser under the U.S. Investment Advisers Act of 1940 (the "Advisers Act") and one of its investment management entities, Polygon Global Partners LLP, is authorised and regulated by the United Kingdom Financial Conduct Authority.

## Note 2 Significant Accounting Policies

### Basis of Presentation

The consolidated financial statements give a true and fair view, are prepared in conformity with U.S. GAAP and comply with The Companies (Guernsey) Law, 2008.

For financial statement reporting purposes, the Fund is an investment company and follows Financial Services – Investment Companies (ASC 946).

Except for new standards adopted, the accounting policies have been consistently applied by the Fund during the period ended 30 June 2014 and are consistent with those used in the previous period.

The consolidated financial statements are presented in United States Dollars rounded to the nearest thousand.

### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes, including the valuation of investments. The Fund's management believes that the estimates utilized in preparing the consolidated financial statements are reasonable and prudent, however actual results could differ materially from these estimates.

**Note 2 Significant Accounting Policies (continued)**

**Foreign Currency Translation**

Transactions in foreign currencies are translated at the foreign currency exchange rate ruling at the date of the transaction. All assets and liabilities denominated in foreign currencies are translated to U.S. Dollars at the foreign currency closing exchange rate ruling at the reporting date. Foreign currency exchange differences arising on translation and realized gains and losses on disposals or settlements of monetary assets and liabilities are recognized in the Consolidated Statements of Operations.

Foreign currency exchange differences relating to derivative financial instruments are included in foreign currency transactions and translation of assets and liabilities in foreign currencies in the Consolidated Statements of Operations. All other foreign currency exchange differences relating to monetary items, including cash and cash equivalents and investments, are included in the foreign currency transactions and translation of assets and liabilities in foreign currencies in the Consolidated Statements of Operations.

**Investment Transactions and Investment Income**

Investment transactions are recorded on a trade date basis (the trade date is the date that an entity commits to purchase or sell an asset). Realized gains and losses from CLO equity and mezzanine securities, leveraged loans, forwards, swaptions, investment funds, swaps, contracts for difference, listed stock and unlisted stock are calculated on the identified historical cost basis. Interest income is recognized on an effective interest rate basis.

**Financial Instruments**

*Investments in CLO equity tranche investments ("CLO equity"), at fair value*

In the absence of an active market for the equity tranche investments in securitization vehicles, a mark to model approach has been adopted to determine their valuation. A third party valuation model that is used by the Investment Manager and the Administrator has been selected for this purpose. The model contains characteristics of the securitization vehicle structure, including current assets and liabilities and inception to date performance, based upon information derived by a specialist firm, from data sources such as the trustee reports. Key model inputs include asset spreads, expected defaults and expected recovery rates for the relevant category of underlying collateral held in the securitization vehicle. These inputs are derived by reference to a variety of market sources, which are used by both the Investment Manager and the Administrator. The model is used to project performance ("Expected IRR") for each investment, based on performance to date and expected future cash flows as well as to calculate fair value. As cash is received from the securitization vehicle, only the Expected IRR is recognized as income and any difference is treated as an adjustment of principal.

The fair value calculations for the equity tranches are sensitive to the key model inputs, including amongst other things, defaults and recovery rates. The default rate, recovery rate and other assumptions are determined by reference to a variety of observable market sources and applied according to the quality and asset class mix of the underlying collateral.

The model assumptions are reviewed on a regular basis and adjusted as appropriate to factor in historic, current and potential market developments. A different set of forward looking assumptions is applied according to whether the security is characterized as being U.S. or European.

The Fund recognizes interest income and any impairment pursuant to "Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests in Securitized Financial Assets" (ASC 325). ASC 325 sets forth rules for recognizing interest income and determining when an investment is impaired.

**Note 2 Significant Accounting Policies (continued)**

**Financial Instruments (continued)**

*Investments in CLO equity tranche investments ("CLO equity"), at fair value (continued)*

In accordance with ASC 325, the excess of the estimated future cash flows over the initial investment is the accretable yield which is recognized as interest income over the life of the investment using the effective yield method. Cash distributions received from investments under ASC 325 may not necessarily equal the income earned during any given year or period. The amortized cost of each investment is equal to the initial investment plus the yield accrued to date less all cash received to date less any write downs for impairment.

Investments are evaluated for impairment as of each month end or more frequently if the Fund becomes aware of any material information that would lead it to believe an investment may be impaired. Unrealized gains and losses occur when actual cash receipts differ from the amounts initially estimated, discount rates and / or assumptions included in the fair valuation models (such as estimated default rates, prepayment or recovery rates) have changed. Any investment with unrealized loss is tested for permanent impairment as required by ASC 325.

*Investments in leveraged loans, at fair value*

To the extent that the Fund's leveraged loans are exchange traded and are priced or have sufficient bid price indications from normal course trading at or around the valuation date (financial reporting date), such bid pricing will determine fair value. Pricing service marks from third party pricing services may be used as an indication of fair value, depending on the volume and reliability of the marks, sufficient and reasonable correlation of bid and ask quotes, and, most importantly, the level of actual trading activity.

*Investments in CLO mezzanine tranche investments, at fair value*

Investments in CLO mezzanine tranches are carried at fair value using the latest broker indicative bid prices. As the mezzanine tranches are marked-to-market, changes in the fair value are recognized immediately in the Consolidated Statements of Operations.

*Investments in securities, listed stock, unlisted common stock and unsecured loans, at fair value*

Investments in listed stock, unlisted common stock and unsecured loans are carried at fair value. Where applicable their cost price, the price at which any recent transaction in the security may have been effected and any other relevant factors may be considered, as well as valuation techniques which may be used by market participants.

*Investments in unlisted investment funds, at fair value*

Investments in unlisted investment funds are valued utilizing the net asset valuations provided by the managers of the underlying funds and / or their administrators. This approach is known as the "practical expedient" and has been applied in accordance with the Accounting Standards Update No. 2009-12 ("ASU 2009-12").

*Forward currency contracts, at fair value*

Forward currency contracts are recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of fair value of a forward contract at initial recognition is the transaction price. Subsequent changes in the fair value of any forward contract are recognized immediately in the Consolidated Statements of Operations.

**Note 2 Significant Accounting Policies (continued)**

**Financial Instruments (continued)**

*Interest rate swaptions, at fair value*

This instrument combines the features of two other financial instruments, namely an option and an interest rate swap. A swaption involves writing / purchasing options to enter into a swap.

When the Fund purchases a swaption, a premium is paid by the Fund and the swaption is initially recognized at the amount of the premium. The swaption is subsequently marked-to-market to reflect the fair value of the swaption purchased, which is reported as an asset on the Consolidated Statements of Assets and Liabilities, and changes in the fair value are recognized immediately in the Consolidated Statements of Operations.

*Swaps and Contracts for difference*

The Fund enters into swaps and contracts for difference ("CFDs") arrangements with financial institutions. Swaps and CFDs are typically traded on the OTC market. The arrangement generally involves an agreement by the Fund and a counterparty to exchange the difference between the opening and closing price of the position underlying the contract, which are generally on equity positions.

The fair value of the swap or CFD is derived by taking the difference between the quoted price of the underlying security and the contract price. Realized and unrealized gains and losses are included in the Consolidated Statements of Operations.

**Fixed Assets**

Fixed assets are stated at cost and depreciated on a straight-line basis over their estimated useful lives.

**Cash and Cash Equivalents**

Cash comprises current deposits with banks. Cash equivalents, short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

**Management Contracts**

Management contracts providing investment management services to investment funds, accounts and other vehicles are amortized over their useful lives. Management contracts are stated at cost less accumulated amortization and impairment. The Fund reviews purchased intangible assets for impairment where there are events or changes in circumstance that indicate the carrying value of an asset may not be recoverable.

Amortization is recognized through profit or loss in the Consolidated Statements of Operations on a straight-line basis over the useful life of the agreements. The estimated useful life for the purposes of amortizing management contracts ranges from three to ten years.

**Principles of Consolidation**

The consolidated financial statements include the accounts of the Fund and its subsidiaries (collectively, the "Group"). All significant intercompany balances and transactions have been eliminated on consolidation.

**Note 2 Significant Accounting Policies (continued)**

**Principles of Consolidation (continued)**

The Fund consolidates all entities where it has an economic interest in excess of 50% and is deemed to have control over the significant operational and financial decisions. Where the Fund owns an interest which is less than 50% but more than 20%, consideration is made as to the level of control exercised. The Fund owns 23% of GreenOak, a real estate investment manager and certain of its affiliates. It has determined that it does not exhibit control over GreenOak and is therefore carrying this investment at fair value.

The Fund is the primary beneficiary of some securities which are considered variable interest entities ("VIE"). As the Fund is accounting for its investments at fair value in accordance with the accounting guidance in the AICPA Audit and Accounting Guide: Investment Companies and has determined that it does not have control over the significant operational and financial decisions of these securities, consolidation of these entities is not required. At 30 June 2014, the fair value of these VIEs is approximately US$ 1,339.6 million (31 December 2013: US$ 1,446.6 million).

These are non-recourse securities with no contingent liabilities where the Fund's maximum loss exposure is capped at the current carrying value.

**Business Combinations**

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When the excess is negative, a bargain purchase gain is recognized immediately in the Consolidated Statements of Operations.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

**Share Based Employee Compensation**

Share-based compensation expense for all equity settled share-based payment awards granted is determined based on the grant-date fair value. The Fund recognizes these compensation costs net of an estimated forfeiture rate, and recognizes compensation cost only for those shares expected to meet the service and performance vesting conditions, on a straightline basis over the requisite service period of the award. These compensation costs are determined at the aggregate grant level for service-based awards and at the individual vesting tranche level for awards with performance conditions.

The Feeder issues the shares to the employees or providers of employment like services whereas the Fund receives the related services, and consequently the share based payments expense is recognized as a capital contribution. When the shares are actually issued the fair value of the shares, as determined at the time of the award, is debited against capital contribution. Any associated stock dividends accrued on the original award are debited against retained earnings and credited to share capital and share premium using the value determined by the stock reference price at the date of each applicable dividend.

**Fee Income**

Fee income from management contracts is usually derived from either a base management fee, which is typically based on assets under management, or an incentive or performance fee which is linked to the performance of the applicable investment fund, account or vehicle. Base management fees are recognized on an accruals basis. Incentive or performance fees are recognized only when they have crystalized, which is usually on an annual or otherwise defined basis.

**Note 2 Significant Accounting Policies (continued)**

**Dividend Income**

Dividend income is recorded on the ex-dividend date, or when the information becomes available to the Fund.

**Other Income**

Where investment management, operating, infrastructure and administrative services are contractually provided to external entities outside of the consolidated Group, these services, along with any associated direct costs are invoiced and recorded as other income. This income is recognized on an accruals basis.

**Expenses**

Expenses are recognized in the Consolidated Statements of Operations on an accruals basis.

**Taxation**

*Income taxes, Fund*

The Fund is exempt from Guernsey income tax under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 and is charged GBP 600 per annum. The Fund has consolidated U.S. and UK operating businesses which are subject to federal and local taxes as applicable.

*Income taxes, Corporate Entities*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that is no longer probable that the related tax benefit will be realized.

In accordance with ASC Subtopic 740-10 – Income Taxes – Overall, the Fund recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. There were no uncertain tax positions recognized at 30 June 2014.

**Dividend Expense**

Dividend expense from shares are recognized in the Consolidated Statements of Changes in Net Assets.

**Note 3 ASC 820, Fair Value Measurements**

The Fund adopted the provisions of “Fair Value Measurements” (ASC 820). ASC 820 defines fair value as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

**Note 3 ASC 820, Fair Value Measurements (continued)**

ASC 820 also establishes a framework for measuring fair value and a three level hierarchy for fair value measurement based upon the transparency of inputs to the valuation of an asset or liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability.

The three levels of the fair value hierarchy are described below:

- Level 1 - Quoted in active markets for identical investments.
- Level 2 - Prices determined using other significant observable inputs. These may include quoted prices for similar securities, interest rates, prepayments spreads, credit risk and others.
- Level 3 - Unobservable inputs. Unobservable inputs reflect assumptions market participants would be expected to use in pricing the asset or liability.

The following is a summary of investments by asset class and level as of 30 June 2014 in valuing the Fund's assets carried at fair value:

| | Level 1 US$ '000 | Level 2 US$ '000 | Level 3 US$ '000 | Total Fair Value US$ '000 |
|---|---|---|---|---|
| CLO Equity Tranches | - | - | 931,669 | 931,669 |
| CLO Mezzanine | - | 1,721 | - | 1,721 |
| Broadly Syndicated Senior Secured Loans | - | 24,705 | - | 24,705 |
| Unsecured Loan | - | - | 8,745 | 8,745 |
| Unlisted Stock | - | - | 36,108 | 36,108 |
| Listed Stock | 34,550 | - | - | 34,550 |
| Collective Investment Schemes | - | 312,844 | 95,055 | 407,899 |
| Interest rate swaptions | - | 4,500 | - | 4,500 |
| Forward foreign exchange contracts | - | (1,237) | - | (1,237) |
| Equity total return swaps | - | 6,049 | - | 6,049 |
| | 34,550 | 348,582 | 1,071,577 | 1,454,709 |

There were no transfers of the Fund's assets between levels during the period ended 30 June 2014 or during the year ended 31 December 2013.

The following is a summary of investments by asset class and level as of 31 December 2013 in valuing the Fund's assets carried at fair value:

| | Level 1 US$ '000 | Level 2 US$ '000 | Level 3 US$ '000 | Total Fair Value US$ '000 |
|---|---|---|---|---|
| CLO Equity Tranches | - | - | 1,120,487 | 1,120,487 |
| CLO Mezzanine | - | 1,699 | - | 1,699 |
| Broadly Syndicated Senior Secured Loans | - | 34,017 | - | 34,017 |
| Unsecured Loan | - | - | 11,069 | 11,069 |
| Unlisted Stock | - | - | 28,400 | 28,400 |
| Listed Stock | 11,207 | - | - | 11,207 |
| Collective Investment Schemes | - | 265,331 | 60,770 | 326,101 |
| Interest rate swaptions | - | 12,050 | - | 12,050 |
| Forward foreign exchange contracts | - | (3,183) | - | (3,183) |
| Equity total return swaps | - | 3,031 | - | 3,031 |
| | 11,207 | 312,945 | 1,220,726 | 1,544,878 |

**Note 3 ASC 820, Fair Value Measurements (continued)**

The following is a reconciliation of the Fund's assets in which significant unobservable inputs (Level 3) were used in determining fair value at 30 June 2014.

| | CLO Equity Tranches US$ '000 | Unsecured Loan US$ '000 | Unlisted Stock US$ '000 | Collective Investment Scheme US$ '000 | Total US$ '000 |
|---|---|---|---|---|---|
| Balance at start of period | 1,120,487 | 11,069 | 28,400 | 60,770 | 1,220,726 |
| Purchases of investments | 63,615 | - | 2,092 | 50,132 | 115,839 |
| Proceeds from sale of investments | (153,128) | (2,565) | - | (26,680) | (182,373) |
| Realized gain / change in unrealized appreciation | 8,440 | 241 | 5,616 | 10,833 | 25,130 |
| Amortization | (107,745) | - | - | - | (107,745) |
| Balance at end of period | 931,669 | 8,745 | 36,108 | 95,055 | 1,071,577 |

The following is a reconciliation of the Fund's assets in which significant unobservable inputs (Level 3) were used in determining fair value at 31 December 2013.

| | CLO Equity Tranches US$ '000 | Unsecured Loan US$ '000 | Unlisted Stock US$ '000 | Collective Investment Scheme US$ '000 | Total US$ '000 |
|---|---|---|---|---|---|
| Balance at start of year | 1,214,411 | 10,091 | 18,126 | 25,684 | 1,268,312 |
| Purchases of investments | 73,145 | 500 | - | 43,516 | 117,161 |
| Proceeds from sale of investments | - | - | - | (11,461) | (11,461) |
| Realized gain / change in unrealized appreciation / (depreciation) | 87,281 | 478 | 10,274 | 3,031 | 101,064 |
| Amortization | (254,350) | - | - | - | (254,350) |
| Balance at end of year | 1,120,487 | 11,069 | 28,400 | 60,770 | 1,220,726 |

*Quantitative information about Level 3 Fair Value Measurements*

| Investments in securities | Balance at 30 June 2014 US$ '000 | Valuation methodology | Unobservable inputs | Range |
|---|---|---|---|---|
| CLO Equity Tranches | 931,669 | Market standard model | See investments in CLO equity tranche investments | (I) |
| Unsecured Loan | 8,745 | Market standard model | Cost of financing for loan counterparty | 3-6% |
| Common Stock | 36,108 | Market standard model | Price / earnings ratios<br>Valuation as % of assets under management | 6-10.5x<br>3-5.5% |
| Collective Investment Scheme | 95,055 | Net asset value of underlying investment companies | Lock up period | N/A |

**Note 3 ASC 820, Fair Value Measurements (continued)**

*Quantitative information about Level 3 Fair Value Measurements (continued)*

| Investments in securities | Balance at 31 December 2013 US$ '000 | Valuation methodology | Unobservable inputs | Range |
|---|---|---|---|---|
| CLO Equity Tranches | 1,120,487 | Market standard model | See investments in CLO equity tranche investments | (I) |
| Unsecured Loan | 11,069 | Market standard model | Cost of financing for loan counterparty | 3-6% |
| Common Stock | 28,400 | Market standard model | Price / earnings ratios<br>Valuation as % of assets under management | 6.5x - 10.5x<br>3-5% |
| Collective Investment Scheme | 60,770 | Net asset value of underlying investment companies | Lock up period | N/A |

The fair value of the level 3 investments are sensitive to the inputs used in the valuation process. The CLO equity valuations are sensitive to a number of different inputs to the third party model. For example, if the default rate assumption inputs were increased, assuming all other inputs were held constant, then the fair value would decrease. Equally, if the discount rates applied to projected cash flows were increased, and similarly all other inputs were held constant, then the fair value would also decrease.

The unsecured loan is valued with reference to an implied yield or cost of financing for the counterparty. If the implied yield were increased then the fair value of the loan would be reduced.

The common stock investment referenced in the table above is a 23% stake in GreenOak. As the GreenOak business has developed certain market metrics such as multiples of earnings have become more relevant than others such as discounted cash flows. As at 30 June 2014 the primary market metric utilised were price / earnings multiples (as indicated in the table above). A range of market derived multiples were applied to projected profitability of GreenOak and a valuation was selected from the range of fair values calculated. Given the greater inherent uncertainty in an early stage business a fair value in the 75th percentile was selected (i.e. in the lower half of the range). If the multiples applied to the projected profitability were decreased then the fair value range would also be decreased.

The collective investment schemes are valued using the net asset value of the underlying investment companies using the approach known as the "practical expedient". This is in accordance with ASU 2009-12.

*(1) CLO equity tranche investments*

As disclosed in Note 2, a mark to model approach has been adopted to determine the valuation of the equity tranche CLO investments. As at 30 June 2014, some of the modeling assumptions used are disclosed below.

U.S. CLO equity tranche investments –

The modeling assumptions disclosed below are a weighted average (by U.S. Dollar amount) of the individual deal assumptions, aggregated by geography (i.e. U.S. and European). Each individual deal's assumptions may differ from this geographical average and vary across the portfolio.

**Note 3 ASC 820, Fair Value Measurements (continued)**

U.S. CLO equity tranche investments –

| | 30 June 2014 | 31 December 2013 |
|---|---|---|
| Constant Annual Default Rate ("CADR") | Approximately 2.2%, which is 1.0x the original Weighted Average Rating Factor ("WARF") derived base-case default rate for the life of the transaction. | Approximately 2.2%, which is 1.0x the original Weighted Average Rating Factor ("WARF") derived base-case default rate for the life of the transaction. |
| Recovery Rate | 73%, which is 1.0x of the original base-case assumed weighted-average recovery rate, for the life of the transaction. | 73%, which is 1.0x of the original base-case assumed weighted-average recovery rate, for the life of the transaction. |
| Prepayment Rate | 20% p.a., the original base-case prepayment rate with a 0% prepayment rate on bonds throughout the life of the transaction. | 20% p.a., the original base-case prepayment rate with a 0% prepayment rate on bonds throughout the life of the transaction. |
| Reinvestment Price and Spread | Assumed reinvestment price is par for the life of the transaction, with an effective spread over LIBOR of approximately 293 bps on broadly U.S. syndicated loans and 324 bps on middle market loans for the life of the transaction. The average effective spread for deals still in their reinvestment periods is approximately 362 bps on broadly U.S. syndicated loans. All middle market loan deals are now through their reinvestment periods. | Assumed reinvestment price is par for the life of the transaction, with an effective spread over LIBOR of approximately 289 bps on broadly U.S. syndicated loans and 328 bps on middle market loans for the life of the transaction. The average effective spread for deals still in their reinvestment periods is approximately 319 bps on broadly U.S. syndicated loans and 330 bps for middle market loan deals. |

European CLO equity tranche investments -

| | 30 June 2014 | 31 December 2013 |
|---|---|---|
| Constant Annual Default Rate ("CADR") | Approximately 2.6%, which is 1.25x the original WARF derived base-case default rate for 2013-14, changing to 2.1% or 1.0x the original base-case thereafter. | Approximately 2.6%, which is 1.25x the original WARF derived base-case default rate for 2013-14, changing to 2.1% or 1.0x the original base-case thereafter. |
| Recovery Rate | 68%, which is 1.0x of the original base-case assumed weighted-average recovery rate, for the life of the transaction. | 68%, which is 1.0x of the original base-case assumed weighted-average recovery rate, for the life of the transaction. |
| Prepayment Rate | 20% p.a., the original base-case prepayment rate with a 0% prepayment rate on bonds throughout the life of the transaction. | 20% p.a., the original base-case prepayment rate with a 0% prepayment rate on bonds throughout the life of the transaction. |
| Reinvestment Price and Spread | The assumed reinvestment price is par for the life of the transaction with an effective spread over LIBOR of approximately 272 bps. The average effective spread for deals still in their reinvestment periods is approximately 279 bps. | The assumed reinvestment price is par for the life of the transaction with an effective spread over LIBOR of approximately 272 bps. The average effective spread for deals still in their reinvestment periods is approximately 278 bps. |

When determining the fair value of the equity tranches a discount rate is applied to the expected future cash flows derived from the third party valuation model. The discount rate applied to those future cash flows reflects the perceived level of risk that would be used by another market participant in determining fair value. In determining the discount rates to use an analysis of the observable risk premium data as well as the individual deal's structural strength and credit quality is undertaken.

**Note 3 ASC 820, Fair Value Measurements (continued)**

As at 30 June 2014, for the pre-2010 vintage U.S. equity tranches, the Fund applies a 12.0% discount rate to the expected future cashflows (31 December 2013: 13.0%). The European equity tranches are all discounted at 14.0% (31 December 2013: 17.0%). For both U.S. and European deals the aforementioned discount rates represent a significant spread over observed yields on the applicable BB-rated CLO tranches for each geographical region at that date.

For the post-2010 vintage U.S. equity tranches the applicable discount rate is determined with reference to each deal's specific IRR, which, in the absence of other observable data points, is deemed to be the most appropriate indication of the current risk premium on these structures. At the period end, the discount rate applied to these deals ranged from 6.4% to 15.9% with a weighted average of 11.4% (31 December 2013: 7.3% to 16.1% with a weighted average of 11.6%). Such deals represented approximately 27.1% (31 December 2013: 17.7%) of the CLO equity portfolio by fair value.

**Note 4 Management Contracts**

During 2012, the Fund acquired TFG Asset Management L.P. (formerly known as Polygon Management L.P.) and certain of its affiliates. Of the assets that were purchased, intangible assets consisting of management contracts for hedge funds and private equity funds were identified. These are tested for impairment on a regular basis and are amortized over an estimated useful life as detailed below.

**30 June 2014**

| | Weighted average amortization period | Gross carrying amount US$ '000 | Weighted average outstanding amortization period | Accumulated amortization US$ '000 | Net carrying amount US$ '000 |
|---|---|---|---|---|---|
| Amortizing intangible assets: | | | | | |
| Management contracts – hedge funds | 10 years | 34,282 | 8 years 4 months | 5,714 | 28,568 |
| Management contracts – private equity | 3 years | 10,246 | 1 year 4 months | 5,692 | 4,554 |
| Total | | 44,528 | | 11,406 | 33,122 |

**31 December 2013**

| | Weighted average amortization period | Gross carrying amount US$ '000 | Weighted average outstanding amortization period | Accumulated amortization US$ '000 | Net carrying amount US$ '000 |
|---|---|---|---|---|---|
| Amortizing intangible assets: | | | | | |
| Management contracts – hedge funds | 10 years | 34,282 | 8 years 10 months | 4,000 | 30,282 |
| Management contracts – private equity | 3 years | 10,246 | 1 years 10 months | 3,984 | 6,262 |
| CLO Management contracts | 3 years | 303 | 1 month | 303 | - |
| Total | | 44,831 | | 8,287 | 36,544 |

Aggregate amortization expense for amortizing intangible assets was US$ 3.4 million for the period ended 30 June 2014 (30 June 2013: US$ 3.4 million). Estimated amortization expense for the next eight years is US$ 3.4 million in the second half of 2014, US$ 6.3 million in 2015, US$ 3.4 million in years 2016 to 2021 and US$ 3.0 million in 2022.

## Note 5 GreenOak

The Fund owns a 23% interest in GreenOak. It has determined that it does not have control over the significant operational and financial decisions of GreenOak and is carrying both the investment in GreenOak and working capital loan at fair value.

The following table outlines the movement in fair value of the GreenOak financial real estate manager:

| | 30 Jun 2014<br>US$ '000 | 31 Dec 2013<br>US$ '000 |
|---|---|---|
| Opening fair value | 28,400 | 18,126 |
| Change in unrealized appreciation | 5,670 | 10,274 |
| Closing fair value | 34,070 | 28,400 |

The Fund has provided GreenOak with working capital of up to US$ 10.0 million in the form of a seven year non-recourse loan facility. Under the terms of this facility, the first US$ 5.0 million will earn an annual interest rate of 3% and the balance will earn an annual interest rate of 6%. During the period, GreenOak repaid US$ 2.6 million, with US$ 1.3 million being allocated against the 3% loan and US$ 1.3 million against the 6% loan.

The following table outlines the movement in the fair value of the unsecured working capital facility provided by the Fund to GreenOak.

| | 30 Jun 2014<br>US$ '000 | 31 Dec 2013<br>US$ '000 |
|---|---|---|
| Opening fair value | 11,069 | 10,091 |
| Working capital contributed | - | 500 |
| Part repayment of working capital | (2,565) | |
| Unrealized appreciation | 241 | 478 |
| Closing fair value | 8,745 | 11,069 |

## Note 6 Cash and Cash Equivalents

| | 30 Jun 2014<br>US$ '000 | 31 Dec 2013<br>US$ '000 |
|---|---|---|
| Cash and current deposits with banks | 221,582 | 237,899 |
| Foreign currency cash with banks (cost: US$ 37.3 million (31 December 2013: US$ 7.9 million)) | 37,276 | 8,013 |
| | 258,858 | 245,912 |

Of this cash balance, approximately US$ 5.5 million was held with respect to certain capital requirements in regulated entities (31 December 2013: US$ 4.5 million).

## Note 7 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk

To the extent prices may be obtained on some or all of the Fund's assets, those prices may be extremely volatile, and will generally fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, financial market conditions, domestic and international economic or political events, developments or trends in any particular industry, and the financial condition of the obligors of the Fund's assets.

The Fund's assets include securities or other financial instruments or obligations which are very thinly traded or for which no market exists or which are restricted as to their transferability under applicable securities laws. The valuation of the CLO equity tranche investments is determined using a third-party cash flow modeling tool.

**Note 7 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)**

The model contains certain assumption inputs that are reviewed and adjusted as appropriate to factor in how historic, current and potential market developments (examined through, for example, forward-looking observable data) might potentially impact the performance of these CLO equity investments.

Since this involves modeling, among other things, forward projections over multiple years, this is not an exercise in recalibrating future assumptions to the latest quarter's historical data.

Subject to the foregoing, when determining the U.S. GAAP-compliant fair value of the CLO equity investments, the Fund seeks to derive a value at which market participants could transact in an orderly market and also seeks to benchmark the model inputs and resulting outputs to observable market data when available and appropriate. Although seeking to utilize, where possible, observable market data, for certain assumptions the Investment Manager may be required to make subjective judgements and forward-looking determinations, and its experience and knowledge is instrumental in the valuation process.

Further, because of overall size or concentration in particular markets of positions held by the Fund, the value at which its investments can be liquidated may differ, sometimes significantly, from the interim valuations arrived at.

The majority of the Fund's investments consist of interests in and / or economic exposures to limited recourse securities that are subordinated in right of payment and ranked junior to other securities that are secured by the same pool of assets. In the event of default by an issuer in relation to such investments holders of the issuer's more senior securities will be entitled to payments in priority to the Fund.

Some of the Fund's investments may also have structural features that divert payments of interest and / or principal to more senior classes secured by the same pool of assets when the delinquency or loss experience of the pool exceeds certain levels. This may lead to interruptions in the income stream that the Fund anticipates receiving from its investment portfolio. To the extent that actual losses on the underlying collateral exceed the level of assumed losses used to determine the fair value of the investment, the value of the investment may be reduced.

Some of the Fund's assets are held by a custodian and the Fund is exposed to the credit risk of this counterparty. The Fund has also entered into derivative transactions which results in exposure to counterparty credit risk. The counterparties to these derivative transactions are major financial institutions.

As part of the Fund's current investment strategy it may employ hedging strategies and leverage in seeking to provide attractive returns from the portfolio while managing risk. The hedging strategy may include the use of single name or index credit hedges when and where appropriate as well as foreign exchange rate hedges and interest rate swaptions. This is reviewed on an on-going basis in order to seek to address identified risks to the extent practicable and in a cost effective manner. As at 30 June 2014 and 31 December 2013 there were no credit hedges in place.

As at 30 June 2014, the Fund has one long interest rate swaption contract with an out-of-the-money strike and a notional of US$ 500 million (31 December 2013: US$ 500 million). The primary purpose of this position is to act as a hedge in a rising interest rate environment, particularly with reference to the CLO portfolio.

As at 30 June 2014, the Fund had a number of forward foreign exchange contracts in place with original maturities ranging from three months to approximately five years. The Fund typically agrees to sell foreign currency and buy U.S. Dollars in order to hedge long non-U.S. Dollar investment positions. The total open balance as the end of the period was net long U.S. Dollars US$ 272.9 million, having executed 41 transactions during the period at an average notional of US$ 21.9 million. (31 December 2013: net long U.S. Dollars US$ 186.4 million, having executed 17 transactions during the period at an average notional of US$ 34.8 million).

**Note 7 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)**

The Fund's investments in leveraged loans through equity tranche investments in securitization vehicles generate LIBOR plus returns and are sensitive to interest rate levels and volatility. Although these vehicles are structured to hedge interest rate risk through the use of matched funding, there may be some difference between the timing of LIBOR resets on the liabilities and assets, which could have a negative effect on the amount of funds distributed to equity tranche holders.

Furthermore, in the event of a significant rising interest rate environment and / or economic downturn, loan defaults may increase and result in credit losses that may be expected to affect the Fund's cash flow, fair value of its assets and operating results adversely. The Fund may utilize hedging instruments, such as interest rate swaptions, to try and mitigate interest rate tail risks.

The Fund did not have a significant concentration of credit risk exposure to leveraged loans at 30 June 2014 or 31 December 2013. No individual investment in leveraged loans exceeded 0.25% of the net assets as of these dates.

The Fund is exposed to credit risk through its investment in GreenOak investment funds and the working capital it has provided to GreenOak through a seven year non-recourse loan facility, maturing on 16 September 2017. Bankruptcy or insolvency of GreenOak may cause the Fund's rights with respect to the investment funds to be delayed or limited. The maximum exposure to GreenOak at 30 June 2014 and 31 December 2013 is disclosed on the Consolidated Condensed Schedule of Investments.

The Fund has made investments into certain collective investment schemes. These include real estate investment vehicles and hedge funds which have exposure to securities including equities, convertible bonds and derivatives. These underlying investments may be in securities or assets which are illiquid and / or in different geographies around the world. These investments may be subject to counterparty risk. Capital invested in to the investment vehicles may be subject to lock ups and gates, or subject to the realization of the underlying investments and assets. The Fund has also made investments into equities which are directly held. These investments are subject to market and liquidity risk.

The Fund enters into swaps and CFDs with financial institutions. The Fund utilizes these swap or CFD agreements as an efficient means of hedging or of obtaining exposure to certain underlying investments. The Fund is subject to the risk of the inability or refusal to perform with respect to such contracts on the part of counterparties trading with it, as well as risks relating to the creditworthiness of the swap counterparty, market risk, liquidity risk and operations risk. Through swaps or CFDs the Fund can in effect be exposed to increases or decreases in the value of an equity or index or to decreases or increases in the value of a related equity or index. Depending on how they are used, the agreements may increase or decrease the overall volatility of the portfolio and performance of the Fund. During the period to 30 June 2014 the Fund had a weighted average notional exposure of US$ 276.7 million through swaps referencing underlying individual equity positions, compared to US$ 165.5 million in the period from June to December 2013. Prior to June 2013 the Fund did not have any open equity swap positions.

The Fund's investments that are denominated in currencies other than U.S. Dollar are subject to the risk that the value of such currency will decrease in relation to the U.S. Dollar. The Fund currently uses foreign exchange rate forwards to seek to hedge this currency risk in whole or in part, to the extent practicable and in a cost effective manner. As described above, the hedging strategy (including these currency hedges) is reviewed on an on-going basis. Details of the Fund's investment portfolio at the reporting date are disclosed in the Consolidated Condensed Schedule of Investments on pages 6 and 7.

The Fund is required to disclose the impact of offsetting assets and liabilities represented in the statements of assets liabilities to enable evaluation of the effect or potential effect of netting arrangements on its financial position for recognized assets and liabilities.

As of 30 June 2014, the Fund holds financial instruments and derivative instruments that are eligible for offset in the statements of assets and liabilities and are subject to a master netting arrangement. The master netting arrangement allows the counterparty to net any collateral held on behalf of the Fund or liabilities or payment obligations of the counterparty against any liabilities or payment obligations of the Fund to the counterparty.

**Note 7 Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)**

The following table provides disclosure regarding the potential effect of offsetting of recognized assets presented in the statement of assets and liabilities:

| 30 June 2014 | | | | | | |
|---|---|---|---|---|---|---|
| Description | Gross Amount of Recognized Assets US$ '000 | Gross Amounts Offset in the Statements of Assets and Liabilities US$ '000 | Net Amounts Presented in the Statements of Assets and Liabilities US$ '000 | Financial instruments eligible for netting US$ '000 | Cash Collateral received/ Posted US$ '000 | Net Amount US$ '000 |
| **Assets** | | | | | | |
| Derivatives | 13,255 | - | 13,255 | (2,705) | - | 10,550 |
| Total | 13,255 | - | 13,255 | (2,705) | - | 10,550 |
| **Liabilities** | | | | | | |
| Derivatives | 3,943 | - | 3,943 | (2,705) | (1,238) | - |
| Total | 3,943 | - | 3,943 | (2,705) | (1,238) | - |

| 30 June 2013 | | | | | | |
|---|---|---|---|---|---|---|
| Description | Gross Amount of Recognized Assets US$ '000 | Gross Amounts Offset in the Statements of Assets and Liabilities US$ '000 | Net Amounts Presented in the Statements of Assets and Liabilities US$ '000 | Financial instruments eligible for netting US$ '000 | Cash Collateral received/ Posted US$ '000 | Net Amount US$ '000 |
| **Assets** | | | | | | |
| Derivatives | 13,107 | - | 13,107 | - | - | 13,107 |
| Total | 13,107 | - | 13,107 | - | - | 13,107 |
| **Liabilities** | | | | | | |
| Derivatives | 169 | - | 169 | - | (169) | - |
| Total | 169 | - | 169 | - | (169) | - |

**Note 8 Amounts Due From Brokers**

The amounts due from brokers is cash pledged as collateral on the forward contracts and equity swaps. At 30 June 2014 the collateral cash balance with UBS AG was US$ 14.8 million (31 December 2013: US$ 29.0 million), BNP Paribas was US$ 24.9 million (31 December 2013: US$ Nil) and Bank of America Merrill Lynch was US$ 33.2 million (31 December 2013: US$ 13.0 million).

## Note 9 Other Receivables

| | 30 Jun 2014 US$ '000 | 31 Dec 2013 US$ '000 |
|---|---|---|
| Accrued fee income | 4,090 | 11,346 |
| Cost recovery receivable | 2,404 | 3,102 |
| Prepayments | 1,989 | 2,010 |
| Rent deposits on properties | 1,821 | 1,754 |
| Amounts receivable on sale of investments | 27,105 | - |
| Other receivables | 3,273 | 8,376 |
| | 40,682 | 26,588 |

## Note 10 Other Payables and Accrued Expenses

| | 30 Jun 2014 US$ '000 | 31 Dec 2013 US$ '000 |
|---|---|---|
| Employee costs | 25,111 | 33,866 |
| Amounts owing to former Polygon partners (see Note 21) | 3,422 | 6,907 |
| Other operating and administrative expenses | 3,238 | 6,225 |
| | 31,771 | 46,998 |

## Note 11 Share Capital

### Authorized

The Fund has an authorized share capital of US$ 1.0 million divided into 10 voting shares, having a par value of US$ 0.001 each and 999,999,990 non-voting shares (which are the "Shares" referred to herein), having a par value of US$ 0.001 each.

### Voting Shares

All of the Fund's voting shares are issued at par and are beneficially owned by the Voting Shareholder, a non-U.S. affiliate of the Investment Manager. The voting shares will be the only shares entitled to vote for the election of Directors and on all other matters put to a vote of shareholders, subject to the limited rights of the Shares described below. The voting shares are not entitled to receive dividends.

### Non-Voting Shares

The Shares carry a right to any dividends or other distributions declared by the Fund. The Shares are not entitled to vote on any matter other than limited voting rights in respect of variation of their own class rights.

### Dividend Rights

Dividends may be paid to the holders of Shares at the sole and absolute discretion of the Directors. The voting shares carry no rights to dividends.

**Note 11 Share Capital (continued)**

**Share Transactions**

| | Voting Shares No. | Shares No. '000 | Shares US$ '000 |
|---|---|---|---|
| Shares in issue at 31 December 2012 | 10 | 98,805 | 99 |
| Issued in lieu of stock dividend | - | 413 | - |
| Issued through release of tranche of Escrow Shares | - | 1,165 | 1 |
| Treasury Shares purchased during the year | - | (1,445) | (1) |
| Shares in issue at 31 December 2013 | 10 | 98,938 | 99 |
| Issued in lieu of stock dividend | - | 159 | - |
| Treasury Shares purchased during the period | - | (4,854) | (5) |
| Shares in issue at 30 June 2014 | 10 | 94,243 | 94 |

**Treasury Shares**

The Fund owns a subsidiary, TFG Holdings I, to which it may transfer, and has transferred, Shares previously held in a Treasury Account. Where this occurs the status of the Shares is unchanged from an accounting perspective and they are not included in the Shares outstanding on the Consolidated Statements of Assets and Liabilities.

On 30 November 2007, the Feeder announced the implementation of a share repurchase program of their outstanding Shares. This was renewed on several occasions, most recently on 14 January 2013 running until 30 April 2013 when it expired. As at 30 June 2014 there was no share repurchase program in place.

When the program was in operation, the Fund undertook to repurchase an identical number of its own Shares from the Feeder as and when it made these repurchases in the open market.

The Fund matched the price per Share paid by the Feeder. The Shares are held in a Treasury Account or in a subsidiary allowing them to potentially be resold back to the Feeder if it resells its own shares back into the market at a later date. Whilst they are held by the Fund (whether directly or via a subsidiary), the Shares are neither eligible to receive dividends nor are they included in the Shares outstanding on the Statements of Assets and Liabilities.

On 11 March 2014, the Feeder and the Fund announced that under the terms of a "modified Dutch auction" (the "Tender Offer") the Fund had accepted for purchase approximately 4.9 million Feeder non-voting shares at a purchase price of US$ 10.30 per share and an aggregate cost of US$ 50.9 million, including applicable fees and expenses. The repurchased shares, together with an equivalent number of Fund Shares that had been held by the Feeder, were transferred to the Treasury Account.

After giving effect to the Tender Offer, as at 30 June 2014, 16.6 million Shares are held in TFG Holdings I (31 December 2013: 16.6 million) and 12.8 million Shares in the Treasury Account (31 December 2013: 7.9 million) with an aggregate attributed cost of US$ 261.0 million (31 December 2013: US$ 210.1 million).

**Treasury Share Transactions**

| | Treasury Shares Shares No. '000 | Shares held in subsidiary Shares No. '000 |
|---|---|---|
| Shares brought forward at 31 December 2012 | 6,503 | 16,604 |
| Treasury Shares purchased during the year | 1,445 | - |
| Treasury Shares at 31 December 2013 | 7,948 | 16,604 |
| Treasury Shares purchased during the period | 4,854 | - |
| Treasury Shares 30 June 2014 | 12,802 | 16,604 |

**Note 12 Share Premium**

| | 30 Jun 2014 US$ '000 | 31 Dec 2013 US$ '000 |
|---|---|---|
| Balance at start of period / year | 922,447 | 924,189 |
| Premium arising from issuance of Shares | 1,670 | 14,329 |
| Discount arising from purchase of Shares | (50,910) | (16,071) |
| Balance at end of period / year | 873,207 | 922,447 |

**Note 13 Dividends**

| | 30 Jun 2014 US$ '000 | 30 Jun 2013 US$ '000 |
|---|---|---|
| Quarter ended 31 December 2012 of US$ 0.135 per share | - | 13,266 |
| Quarter ended 31 March 2013 of US$ 0.135 per share | - | 13,159 |
| Quarter ended 31 December 2013 of US$ 0.15 per share | 14,841 | - |
| Quarter ended 31 March 2014 of US$ 0.15 per share | 14,122 | - |
| | 28,963 | 26,425 |

The second quarter dividend of US$ 0.155 per share was approved by the Directors on 29 July 2014 and has not been included as a liability in these consolidated financial statements.

The Fund also pays a dividend to the Feeder that is sufficient to pay their incentive fee liability which in the period ended 30 June 2014 was US$ 43.5 million (30 June 2013: US$ 48.9 million).

**Note 14 Retained Earnings**

| | 30 Jun 2014 US$ '000 | 31 Dec 2013 US$ '000 |
|---|---|---|
| Balance at start of period / year | 906,583 | 730,139 |
| Net income resulting from operations for the period | 91,286 | 293,228 |
| Dividends paid to shareholders | (28,963) | (53,922) |
| Stock dividends on Shares released from Escrow | - | (592) |
| Dividends paid to Feeder | (43,506) | (62,270) |
| Balance at end of period / year | 925,400 | 906,583 |

**Note 15 Income and Deferred Tax Expense**

Income tax for the periods ended 30 June 2014 and 30 June 2013 consists of:

| Period ended 30 June 2014: | Current US$ '000 | Deferred US$ '000 | Total US$ '000 |
|---|---|---|---|
| U.S. Federal and local | 3,404 | (180) | 3,224 |
| UK | 34 | (741) | (707) |
| | 3,438 | (922) | 2,516 |

| Period ended 30 June 2013: | Current US$ '000 | Deferred US$ '000 | Total US$ '000 |
|---|---|---|---|
| U.S. Federal and local | 5,748 | (3,432) | 2,316 |
| | 5,748 | (3,432) | 2,316 |

US$ 0.4 million of current tax was payable at the end of the period (31 December 2013: US$ 0.6 million) with US$ 1.0 million receivable (31 December 2013: US$ 0.6 million).

**Note 15 Income and Deferred Tax Expense (continued)**

**Tax Rate Reconciliation**

Income tax expense was US$ 2.5 million for the period ended 30 June 2014, and differed from the amounts computed by applying the U.S. federal income tax of 34% to pretax increase in the net assets as a result of the following:

| | 30 Jun 2014 US$ '000 | 30 Jun 2013 US$ '000 |
|---|---|---|
| Net increase in operations before tax | 93,802 | 116,784 |
| | | |
| Computed "expected" tax expense at 34% | 31,893 | 39,707 |
| *Deduction in income taxes resulting from:* | | |
| Income not subject to U.S. tax | (30,288) | (37,542) |
| State and local income taxes | 911 | 152 |
| Other exemptions net | - | (1) |
| Total income and deferred tax expense | 2,516 | 2,316 |

**Deferred Tax**

| | 30 Jun 2014 US$ '000 | 31 Dec 2013 US$ '000 |
|---|---|---|
| Deferred tax assets | | |
| Employee compensation payments | 7,115 | 7,115 |
| Loss carried forward | 616 | 596 |
| Total deferred tax assets | 7,731 | 7,711 |
| | | |
| Deferred tax liabilities | | |
| Undistributed earnings | 570 | 622 |
| Amortisation of intangible assets | 8,646 | 9,495 |
| Total deferred tax liabilities | 9,216 | 10,117 |
| | | |
| Net deferred tax (liabilities) | (1,485) | (2,406) |

Deferred tax assets include US$ 7.1 million (31 December 2013: US$ 7.1 million) relating to amounts accrued for employee compensation in 2013 which will only be an allowable expense in 2014 for tax purposes, and US$ 0.6 million relating to losses carried forward.

US$ 8.6 million is being recognized as a deferred tax liability due to the amortisation on management contracts being a disallowable expense for tax purposes. This will be released over time as the management contracts are amortized. US$ 0.6 million has also been recognized as a liability with respect to applicable undistributed earnings at a withholding rate of 5%.

**Note 16 Interest Income**

| | 30 Jun 2014 US$ '000 | 30 Jun 2013 US$ '000 |
|---|---|---|
| Debt securities – CLO equity tranches and mezzanine tranches | 84,050 | 108,064 |
| Debt securities – Leveraged loans | 844 | 1,458 |
| Debt securities – Unsecured loans | 241 | 231 |
| Cash and other | 134 | 119 |
| | 85,269 | 109,872 |

## Note 17 Fee Income

| | 30 Jun 2014 US$ '000 | 30 Jun 2013 US$ '000 |
|---|---|---|
| Management fees | | |
| CLO | 18,597 | 20,289 |
| Hedge Funds | 7,067 | 4,908 |
| Private equity | 3,225 | 4,352 |
| Performance fees | 4,101 | 1,086 |
| | 32,990 | 30,635 |

CLO management fee income generally comprises senior and subordinated fees and in aggregate these fees currently range from 25 bps to 50 bps per annum of collateral under management. In addition to fee income earned on CLOs directly managed it also includes fee income derived from a number of one-off and long-term fee sharing arrangements with third parties. In the period to 30 June 2014 these third party fees generated US$ 7.6 million (30 June 2013: US$ 9.6 million).

Hedge fund management fees charged to external investors are typically 150 bps of net assets under management and depending upon the applicable fund and share class certain other expenses may also be recovered. Management fees paid in connection with the private equity style vehicle are either 200 bps of net assets under management or a fixed declining management fee depending on the applicable class.

Performance or incentive fees may be earned on hedge fund vehicles contingent upon the terms of each vehicle and the share class where applicable. They may also be earned through management of CLO vehicles once the vehicle has generated a specified return for the equity or subordinated tranche. During the period, such fees totaling US$ 4.1 million were earned (30 June 2013: US$ 1.1 million).

Where the Fund invests in Polygon hedge fund or other investment vehicles, it is able to invest at a preferred level of fees. The fees received by such affiliated managers from the Fund's investment are included and recognized in fee income reported in the Fund's Consolidated Statements of Operations. During the period, these fee income amounts were US$ 2.1 million of management fees (30 June 2013: US$ Nil) and US$ Nil of performance fees (30 June 2013: US$ Nil). The Fund also invests on preferred fee terms with its other affiliated asset managers (i.e. LCM and GreenOak).

## Note 18 Segmental Reporting

### Description of Segments

In pursuit of the Fund's investment objective to generate distributable income and capital appreciation, it currently maintains two key business segments: an investment portfolio and an asset-management platform.

Both business segments cover a broad range of assets including bank loans, real estate, equities, credit and convertible bonds. The Fund currently invests primarily through long-term funding vehicles such as collateralized loan obligations.

### Segment Data

The asset management platform segment currently contains three investment manager businesses: Polygon, LCM and GreenOak. These three businesses provide investment management and other services to a number of investment funds, accounts, vehicles and other managers, including CLOs, hedge funds, real estate funds and a private equity vehicle. The Polygon asset management business also has agreements to provide certain infrastructure and other services to the Investment Manager and certain affiliates as detailed in note 21. Some fee income is earned through certain short and long-term fee agreements with third parties.

**Note 18 Segmental Reporting (continued)**

**Segment Data (continued)**

The results for the period ended 30 June 2014 are presented to show the split of revenues, income and net income across the two business segments. The asset management segment incorporates the consolidated results of Polygon and LCM. The Fund owns 23% of GreenOak and is carrying this as an investment at fair value; consequently any unrealized gain or loss is being reflected through the investment portfolio segment.

In arriving at the net income split between the two segments a number of assumptions have been made as to how the expenses of the consolidated business should be split. Expenses of the asset management segment include amortization of management contracts.

| **Period ended 30 June 2014:** | **Investment portfolio US$ '000** | **Asset-management platform US$ '000** | **Total US$ '000** |
|---|---|---|---|
| Interest income | 85,126 | 143 | 85,269 |
| Fee income | - | 32,990 | 32,990 |
| Other income – cost recovery | - | 11,402 | 11,402 |
| Total segment income | 85,126 | 44,535 | 129,661 |
| Management fees and operating expenses | (39,109) | (37,852) | (76,961) |
| Realized and unrealized gains | 27,632 | 5,670 | 33,302 |
| Total segment net income before taxes | 73,649 | 12,353 | 86,002 |

| **Period ended 30 June 2013:** | **Investment portfolio US$ '000** | **Asset-management platform US$ '000** | **Total US$ '000** |
|---|---|---|---|
| Interest income | 109,737 | 135 | 109,872 |
| Fee income | - | 30,635 | 30,635 |
| Other income – cost recovery | - | 10,314 | 10,314 |
| Total segment income | 109,737 | 41,084 | 150,821 |
| Management fees and operating expenses | (38,236) | (31,748) | (69,984) |
| Realized and unrealized gains | 20,403 | - | 20,403 |
| Total segment net income before taxes | 91,904 | 9,336 | 101,240 |

Reconciliation of segment net income before taxes to net income per the Consolidated Statements of Operations.

| | **Period ended 30 Jun 2014 US$ '000** | **Period ended 30 Jun 2013 US$ '000** |
|---|---|---|
| Total segment net income before noncontrolling interest and taxes | 86,002 | 101,240 |
| Income and deferred tax expense | (2,516) | (2,316) |
| Share based employee compensation | (11,548) | (11,548) |
| Add back certain expenses and unrealized depreciation of the Feeder | 19,348 | 27,092 |
| **Net income** | 91,286 | 114,468 |

**Geographical Split of Revenues**

The Fund does not formally monitor, for the purposes of controlling the business, the geographical split of income for either of the two segments. A geographical split of the fee income generated by the asset management can generally, however, be derived, by considering where the primary investment management service was provided. This is a subjective exercise and involves, in some cases, making determinations that the Fund has only made purely for the purpose of completing this table.

**Note 18 Segmental Reporting (continued)**

**Geographical Split of Revenues (continued)**

| | 30 June 2014 | | |
|---|---|---|---|
| Asset Management Segment | **UK** | **U.S.** | **Total** |
| | **US$ '000** | **US$ '000** | **US$ '000** |
| Fee income | 8,370 | 24,620 | 32,990 |

| | 30 June 2013 | | |
|---|---|---|---|
| Asset Management Segment | **UK** | **U.S.** | **Total** |
| | **US$ '000** | **US$ '000** | **US$ '000** |
| Fee income | 8,148 | 22,487 | 30,635 |

A geographical split of income for the Investment Portfolio has not been provided, although certain geographical information has been provided in the Consolidated Condensed Schedule of Investments on pages 6 and 7 and a geographic split of the investment portfolio is reported on a monthly basis on the Feeder's website.

**Net Assets Split by Business Segment**

The Fund also does not formally monitor or report internally on net assets split by business segment. For the purposes of compiling a split for this segmental note the Asset Management segment net assets are deemed to consist of the consolidated net assets of TFG Asset Management L.P. calculated in accordance with U.S. GAAP, the current carrying value of the management contracts and the fair value of the investment in GreenOak, with the remaining net assets being attributed to the Investment Portfolio segment.

| | **30 Jun 2014** | **31 Dec 2013** |
|---|---|---|
| | **US$ '000** | **US$ '000** |
| Investment Portfolio | 1,737,108 | 1,760,538 |
| Asset Management | 90,743 | 86,193 |
| Total | 1,827,851 | 1,846,731 |

**Note 19 Share Based Employee Compensation and Bargain Purchase**

On 28 October 2012, TFG Asset Management L.P. (formerly known as Polygon Management L.P.) and certain of its affiliates, were acquired in exchange for consideration of approximately 11.7 million non-voting shares of the Feeder to the sellers (the "Aggregate Consideration"). The Aggregate Consideration will be held in escrow (along with accrued stock dividends), by the escrow agent pursuant to the terms of the escrow agreement. The first tranche was released in 2013 and the remainder will be released over the period 2014 to 2017.

Under ASC 805 - Business Combinations ("ASC 805") these shares were treated as payment for post combination services rather than upfront consideration, hence the initial consideration was determined to be nil, resulting in a bargain purchase.

The assets and liabilities purchased were separately identified and an estimated fair value was calculated as at the acquisition date. The management contracts were classified as either Hedge Funds or Private Equity and an estimated fair value for these intangible assets was calculated by reference to applicable market methodologies such as percentage of assets under management, discounted cash flow analysis and price-earnings ratios. The 13% interest in GreenOak was not consolidated, but classified as an investment to be held at fair value. This was also valued by reference to similar applicable market methodologies. As part of the transaction, the noncontrolling interest in LCM was treated as a transaction with the Fund in its capacity as owners and therefore no separate asset or goodwill is recognised as a result. The following table summarizes the estimated fair value of the assets acquired against the consideration recognized:

**Note 19 Share Based Employee Compensation and Bargain Purchase (continued)**

| | US$ '000 |
|---|---|
| **Assets** | |
| Management contracts – Hedge Funds | 34,282 |
| Management contracts – Private Equity | 10,246 |
| 13% interest in GreenOak | 10,246 |
| LCM noncontrolling interest | - |
| | 54,774 |
| Net liabilities | - |
| **Total identifiable net assets assumed** | 54,774 |
| Consideration | - |
| **Bargain purchase recognized in the consolidated statement of operation** | 54,774 |

The overall value of the Aggregate Consideration delivered to the escrow account for the sellers amounted to US$ 98.5 million based on a share price of US$ 8.43 at the close on the last business day prior to the transaction date. Polygon was acquired free of cash and debt.

The shares exchanged are subject to vesting and forfeiture conditions: in particular, all of the consideration due to Reade Griffith and Paddy Dear, Founders of Polygon, will vest between 2015 and 2017.

As the consideration is treated as share based payments under ASC 805, the Fund recognizes the individual compensation costs on a straight line basis over the relevant service period of each award if the vesting performance conditions are met. These are reflected in the Consolidated Statements of Operations as share based employee compensation and through Equity as a separate reserve. The charge for the period ended 30 June 2014 amounted to US$ 11.5 million (30 June 2013: US$ 11.5 million).

The table below shows the number of Feeder shares which are currently expected to vest over the period to 2017, including accrued stock dividends up to the end of June 2014. These shares are all entitled to any future stock dividends prior to their release from escrow and so the actual amount of shares vesting each year may be higher. Upon the release of the Feeder shares from escrow, the Fund will issue an identical number of Shares to the Feeder.

**Vesting Schedule - Shares**

| | Shares '000 | US$ '000 |
|---|---|---|
| 2014 | 1,506 | 11,548 |
| 2015 | 4,102 | 23,097 |
| 2016 | 3,255 | 16,586 |
| 2017 | 2,741 | 12,637 |
| | 11,604 | 63,868 |

**Note 20 Contingencies and Commitments**

The Fund committed to provide a co-investment commitment of up to US$ 100.0 million into GreenOak investment vehicles. As at 30 June 2014, it had funded US$ 35.8 million of this commitment, (31 December 2013: US$ 26.3 million). The Fund has made investment commitments in several existing vehicles where only a partial capital drawdown has occurred to date. Not all of such commitments are applicable towards the original co-investment commitment of up to US$ 100.0 million. The Fund has estimated unfunded commitments of US$ 100.6 million in this respect (31 December 2013: US$ 31.8 million).

**Note 20 Contingencies and Commitments (continued)**

Future minimum lease payments under noncancelable operating leases as of 30 June 2014 are:

| | 30 Jun 2014 | 31 Dec 2013 |
|---|---|---|
| | US$'000 | US$'000 |
| 2014 | 2,914 | 5,714 |
| 2015 | 5,828 | 5,714 |
| 2016 | 5,828 | 5,714 |
| 2017 | 5,067 | 4,953 |
| 2018 | 222 | 208 |
| | 19,859 | 22,303 |

In the first half of 2014, the amount paid with respect to such leases was US$ 2.8 million (30 June 2013: US$ 2.6 million).

**Note 21 Related Party Transactions**

The Feeder, a Guernsey based closed-ended investment company, invests substantially all of its assets in the Fund, and has the same Investment Manager as the Fund.

All fees and expenses of the Feeder and the Fund (including management fees), except for the incentive fees, are paid by the Fund and allocated to the Feeder. An incentive fee may be paid to the Investment Manager by the Feeder.

The remuneration for Directors shall be determined by resolution of the Voting Shareholder. Effective 1 January 2014, each of the Directors' annual fee is US$ 100,000 in compensation for service on the Boards of Directors of both the Feeder and the Fund. The Fund will pay the Directors' fees. Paddy Dear and Reade Griffith have waived their entitlement to a fee in respect of their services as Directors. The Directors are entitled to be repaid by the Fund for all travel, hotel and other expenses reasonably incurred by them in the discharge of their duties. None of the Directors has a contract with the Feeder or the Fund providing for benefits upon termination of employment.

The Voting Shareholder, which holds all of the voting shares, was an affiliate of Polygon and continues to be an affiliate of the Investment Manager. As a result of its ownership and the degree of control that it exercises, the Voting Shareholder will be able to control the appointment and removal of the Fund's and Feeder's Directors (subject to applicable law). Affiliates of the Voting Shareholder also control the Investment Manager and, accordingly, control the Fund's business and affairs.

As described in Note 1, Polygon Management L.P. (now known as TFG Asset Management L.P.), including Polygon's asset management businesses and infrastructure platform and interests in LCM and GreenOak, were acquired on 28 October 2012. As part of the Acquisition, Reade Griffith and Paddy Dear, as founders of Polygon, were awarded consideration in non-voting shares of the Feeder, which vest between 2015 and 2017.

It was contractually agreed as part of the Acquisition that to the extent any annual compensation actually paid to each of Mr. Griffith and Mr. Dear in respect of his employment with the Fund exceeds an annual base salary of US$ 100,000, they would promptly return such excess amount to the Fund. During the period ended 30 June 2014 total compensation paid to them each in aggregate was US$ 50,000.

As at 30 June 2014, in connection to the Acquisition, US$ 3.4 million in aggregate is owed to Reade Griffith and Paddy Dear, directly or via an entity to which they may direct payment (31 December 2013: US$ 6.9 million). This payable primarily relates to the repayment of certain rent deposits funded through Polygon entities by Messrs Griffith and Dear before the Acquisition. Under the terms of the sale and purchase agreement relating to the Acquisition, Messrs Griffith and Dear retained the economic rights to such deposits.

## Note 21 Related Party Transactions (continued)

Reade Griffith and Paddy Dear continue to hold membership interests in Polygon Global Partners LLP (the "UK Investment Manager") which collectively entitle them to exercise all of the voting rights in respect of the UK Investment Manager. As part of the Acquisition, each of Mr. Griffith and Mr. Dear have agreed that he will (i) exercise his voting rights in a manner that is consistent with the best interests of the Fund and (ii) upon the request of the Fund, for nominal consideration, sell, transfer and deliver his membership interests in the UK Investment Manager to the Fund.

Polygon Global Partners LLP and Polygon Global Partners LP (the "Service Providers") provide operational, financial control, trading, marketing and investor relations, legal, compliance, administrative, payroll and employee benefits and other services to the Investment Manager in exchange for fees payable by the Investment Manager to the Service Providers. In addition, the Service Providers also provide certain operating, infrastructure and administrative services to LCM, GreenOak and Polygon Private Investment Partners LP, an affiliate of the Voting Shareholder, pursuant to applicable separate service agreements. PGP LLP is authorized and regulated by the United Kingdom Financial Conduct Authority. In the period the amount recharged to these entities was US$ 10.7 million (30 June 2013: US$ 9.3 million). As at 30 June 2014, the amount receivable relating to these recharges was US$ 2.2 million (31 December 2013: US$ 1.9 million).

The Fund holds CLO equity investments in CLOs which are managed by LCM. During the period it purchased a portion of the equity tranche in LCM XV at a cost of US$ 30.1 million and a portion of equity tranche in LCM XVI at a cost of US$ 33.6 million. In total, as at 30 June 2014, it held CLO equity tranche investments in 12 CLOs managed by LCM with a fair value of US$ 208.7 million (31 December 2013: US$ 159.6 million).

At 30 June 2014, the Fund held investments across several hedge funds managed by Polygon. These hedge funds employ investment strategies involving investing in equities, convertible bonds, credit and derivatives. As at 30 June 2014, the fair value of these investments was US$ 312.8 million (31 December 2013: US$ 265.3 million). The fees paid on these investments are disclosed as per Note 17.

The Fund owns a 23% equity interest in GreenOak. As part of the original transaction to acquire a share in GreenOak, the Fund provided a US$ 100.0 million coinvestment commitment and a US$ 10.0 million working capital loan commitment to GreenOak, with the Feeder issuing 3.9 million share options to the GreenOak founders. On 28 October 2012, as a result of the Acquisition the Fund increased its working capital loan commitment by an additional US$ 0.5 million by assuming the acquiree's remaining unfunded commitment. During the period there was a partial repayment of the working capital loan and the current notional outstanding is US$ 7.7 million.

The Fund has made investments across several real estate investment vehicles managed by GreenOak. As at 30 June 2014, these investments referenced real estate in the United States, Japan and Europe with a net asset value of US$ 95.1 million (31 December 2013: US$ 60.8 million). These investments are typically illiquid where the Fund will only receive distributions on liquidation of the investment vehicle's underlying assets and in some cases this may not be for several years. In addition, based on projected capital raised (subject to change), the Fund had estimated unfunded commitments of up to US$ 100.6 million with respect to the investment vehicles (31 December 2013: US$ 31.8 million).

## Note 22 Other Matters

On 18 June 2013, a shareholder derivative action was filed in United States District Court – Southern District of New York – against the six directors of the Fund and the Feeder, the Investment Manager, the principals of the Investment Manager and other affiliated entities by a purported shareholder of the Feeder (the "Action").

The Action makes a series of allegations including with respect to the Acquisition (see Note 21) and asks, amongst other things, for money damages and equitable relief against the defendants, including the termination of the investment management agreement among the Fund, the Feeder and the Investment Manager.

**Note 22 Other Matters (continued)**

The Feeder, the Fund and their Board of Directors have stated that they believe that the Action is factually and legally without merit and intend to seek to have the Action dismissed as quickly as possible. On 13 January 2014, all defendants filed a motion to dismiss the Action in its entirety. The Court heard oral argument on defendants' motion to dismiss on 23 May 2014.

During the period, the Fund incurred gross legal expenses of US$ 5.9 million in connection with the aforementioned Action, which includes amounts paid under applicable indemnification provisions with respect to the Directors, the Investment Manager and principals of the Investment Manager. At 30 June 2014, US$ 1.7 million (31 December 2013: US$ 1.4 million) was accrued as payable in the Consolidated Statements of Assets and Liabilities.

The Fund is seeking to recover from insurers costs relating to a previous shareholder derivative action, details of which were referred to in the 2011 and 2012 Fund consolidated financial statements. At 30 June 2014, US$ 1.0 million was accrued with respect to an amount which has subsequently been received. Currently significant uncertainty remains as to what will be further recoverable from these efforts and therefore no additional amounts were accrued as at the reporting date.

**Note 23 Subsequent Events**

Effective 23 July 2014, Mr. Frederic M. Hervouet has been appointed as an Independent Director of the Fund and the Feeder and will also serve on the Audit Committees of both. Apart from the aforementioned event, the Directors have evaluated the period up to 29 July, which is the date the financial statements were approved, and have concluded that there are no further material events that require disclosure or adjustment to the financial statements.

**Note 24 Recent changes to U.S. GAAP**

In June 2013, the FASB issued ASU No. 2013-08, "Financial Services - Investment Companies (Topic 946) - Amendments to the Scope, Measurement, and Disclosure Requirements." ASU No. 2013-08 clarifies the approach to be used for determining whether an entity is an investment company and provides new measurement and disclosure requirements. ASU No. 2013-08 is now effective for interim and annual reporting periods in fiscal years that begin after 15 December 2013 and its adoption has not materially affected the Fund's financial condition, results of operations, or cash flows.

**Note 25 Approval of Financial Statements**

The Directors approved the consolidated financial statements on 29 July 2014.