

# TETRAGON FINANCIAL GROUP LIMITED (TFG)

## PERFORMANCE REPORT FOR PERIOD ENDED 30 SEPTEMBER 2013

31 October 2013

Tetragon Financial Group Limited (TFG) is a Guernsey closed-ended investment company traded on NYSE Euronext in Amsterdam under the ticker symbol “TFG.”<sup>(1)</sup> In this report we provide an update on TFG’s results of operations for the period ending 30 September 2013.

### EXECUTIVE SUMMARY AND OUTLOOK

#### OVERVIEW

TFG achieved positive operating and financial performance in Q3 2013 with an annualised Return on Equity (“RoE”) of 11.2% for the first nine months of 2013, in line with the company’s over-the-cycle target of 10-15% per annum.<sup>(2)</sup> Annualised RoE for Q3 2013 alone was 9.1%, slightly below our target due to, among other things, continued loan spread tightening in the United States, deleveraging of post-reinvestment period CLO structures, and loan defaults in certain U.S. CLOs.

During the quarter, TFG invested over \$53.4 million of capital<sup>(3)</sup> into new investments in: loans (via CLO equity); real estate; equities; and credit. We expect, given current opportunities, to continue to invest in these asset classes in the fourth quarter.

Loans remain the dominant asset class in the portfolio, but the composition of investments is changing as CLOs created before the crisis in 2008 (that we refer to as U.S. Pre-Crisis CLOs) are amortising, and as our new investments become more meaningful. In addition, new CLO *ex ante* equity returns are at the lower end of their return expectations due to a combination of factors including relatively high AAA debt spread levels. As we make new investments, we continue to compare risk-adjusted expected returns with a desire to balance, amongst other things, the duration and correlation risks within the total portfolio.

TFG’s asset management business (“TFG Asset Management”) had a good quarter with all funds across the different asset classes performing well, which is not only accretive to our RoE and Net Asset Value (“NAV”) per share but also hopefully bodes well for attracting future client assets.

#### GOALS

Looking at the company’s goals for 2013 expressed in the 2012 Annual Report:

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

The company met its RoE target of 10-15% through 30 September 2013 with annualised RoE of 11.2%.

**2. To manage more of TFG’s assets on the TFG Asset Management platform.**

The amount of TFG’s capital that was externally managed as of the end of Q3 2013 was 52.9%, down from 63.2% at the end of 2012.<sup>(5)</sup>

**3. To grow client AUM and fee income.**

TFG Asset Management’s assets under management (“AUM”) at 30 September 2013 stood at \$9.1 billion, compared to \$7.7 billion at 2012 year-end.<sup>(6)</sup>

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

As mentioned in TFG’s interim report, a senior distressed credit portfolio manager joined the TFG Asset Management platform. TFG Asset Management established a distressed credit fund in Q3 2013, and this team is investing and building a performance track record in the strategy.

## EXECUTIVE SUMMARY AND OUTLOOK

### OUTLOOK

Notwithstanding the unknowns of the financial markets, we remain cautiously optimistic for TFG's current portfolio and new investments. We would highlight three areas of note:

First, as we have said before, managing the deleveraging of our Pre-Crisis CLO portfolio is a complex and important dynamic; we are routinely evaluating the exercise of refinancing and call options against available reinvestment opportunities to seek to optimize the return on both individual investments and the overall portfolio.

Second, GreenOak Real Estate ("GreenOak") has seen good performance in their investment portfolios to date and as their business expands, so do TFG's opportunities to invest in real estate in the United States, Europe and Japan, either within the funds or as a co-investor in discrete opportunities.

Thirdly, corporate activity has picked up in Europe. This has benefitted the investments in European equities over the last few months and may continue to do so if it this trend remains in place.

# KEY METRICS

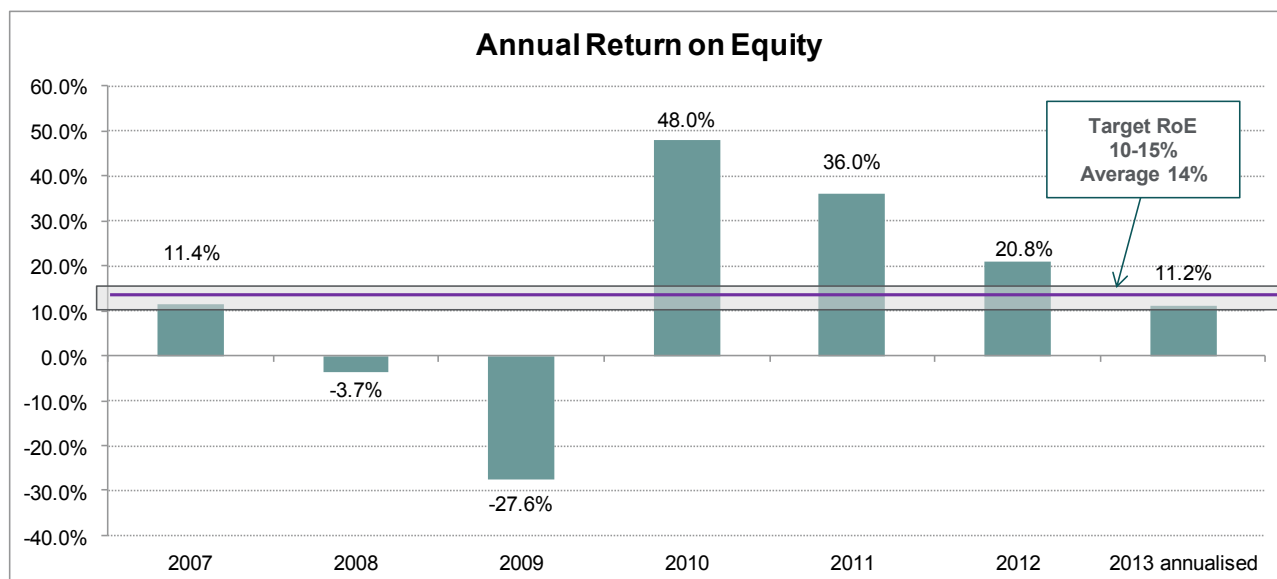
## KEY METRICS

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

## EARNINGS - RETURN ON EQUITY (“RoE”)

- Year to date RoE<sup>(7)</sup> to Q3 2013 was 8.4% (11.2% annualised) which maintains the year to date RoE performance within TFG’s over-the-cycle target of 10-15% per annum.<sup>(8)</sup>
- TFG generated Net Economic Income<sup>(9)</sup> of \$136.5 million in the first three quarters of 2013, a fall of 32.9% versus the same period in 2012.
- Q3 2013’s results saw a continuation of certain trends in CLO performance identified in Q2 2013; a slowing down in the CLO cashflows compared to prior years, and therefore the expected future returns generated by CLOs during the second quarter. This arose primarily from a continued combination of loan spread compression and elevated levels of prepayments, reflecting borrowers taking the opportunity to refinance at lower spreads. The U.S. CLO portfolio also saw some defaults being recognised late in the quarter.
- This trend was counterbalanced by two positives: (1) a continued improvement in the outlook for Euro-denominated CLO deals which resulted in a further reduction in the discount rate that TFG applied to the relevant projected cash flows, adding approximately \$9.1 million (before fees) to the fair value of this part of the CLO portfolio; and (2) continuing strong performance in the non-CLO assets in TFG’s investment portfolio.
- The TFG Asset Management segment contributed approximately \$2.5 million of “EBITDA equivalent”<sup>(10)</sup> in the quarter and an EBITDA equivalent of \$18.4 million year to date through Q3 2013.

Figure 1



## KEY METRICS

### EARNINGS PER SHARE (“EPS”)

- TFG generated an Adjusted EPS<sup>(11)</sup> of \$0.37 during Q3 2013 resulting in a year to date EPS of \$1.39 (YTD Q3 2012: \$1.77).
- CLOs continue to contribute the majority of the investment portfolio income (\$1.61 of EPS in the first three quarters of 2013) albeit at a lower level than recent years as returns on U.S. CLOs normalise.
- The further recalibration of discount rates used in modelling the fair value of the European CLO portfolio, largely in response to sustained reductions in observed risk premia, added approximately \$0.09 of EPS after fees (please see page 26 for further detail).
- The returns on other asset classes, shown in “other investment income”, continue to contribute an increasing proportion of the investment portfolio gains, which we discuss in detail later in this report.
- Fee income relating to the TFG Asset Management segment activities contributed \$0.45 of EPS in the first three quarters, with the growth year-on-year primarily reflecting the addition of asset management activities through the Polygon Transaction in 2012.

Figure 2

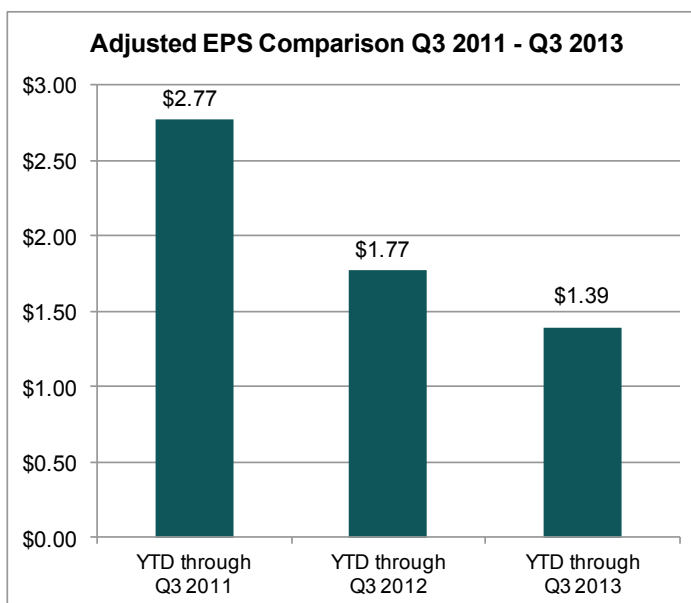


Figure 3

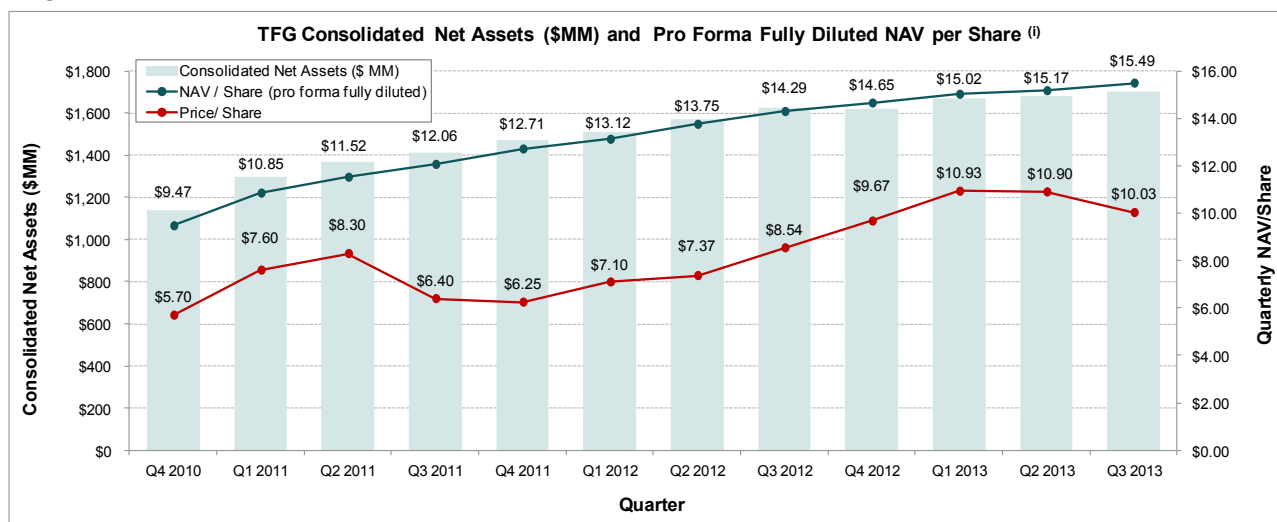
TETRAGON FINANCIAL GROUP			
TFG Earnings per Share Analysis (2011-Q3 2013)			
Component	YTD Q3 2013	2012	2011
CLOs	\$1.61	\$3.65	\$4.76
Hedging derivatives and options	\$0.05	(\$0.10)	(\$0.04)
Direct loans	\$0.02	\$0.07	\$0.03
Other investment income	\$0.22	\$0.09	N/A
Fee income	\$0.45	\$0.32	\$0.20
Expenses and taxes net of recoveries excluding share based compensation	(\$0.96)	(\$1.32)	(\$1.47)
Noncontrolling interest	N/A	(\$0.01)	(\$0.02)
<b>Net economic income/ adjusted EPS</b>	<b>\$1.39</b>	<b>\$2.70</b>	<b>\$3.46</b>

## KEY METRICS

### NAV PER SHARE

Total NAV increased to \$1,704.0 million which equated to Pro Forma Fully Diluted NAV per Share<sup>(12)</sup> of \$15.49.

Figure 4

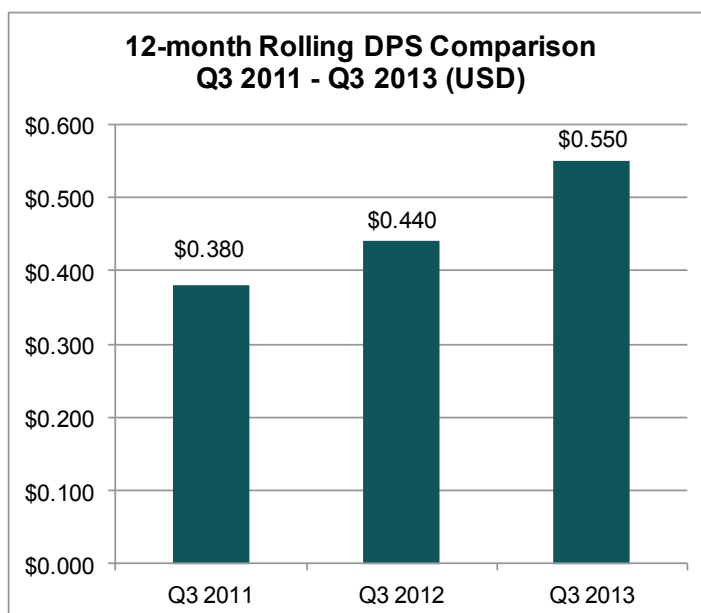


(i) Source: Pro Forma Fully Diluted NAV per share based on TFG's financial statements as of the relevant quarter-end date; TFG's closing share price data as per Bloomberg as of the last trading day of each quarter. Please note that the Pro Forma Fully Diluted NAV per Share reported as of each quarter-end date excludes any shares held in treasury or in a subsidiary as of that date, but includes 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 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.

## DIVIDENDS

- Dividends per Share ("DPS"): TFG declared a Q3 2013 DPS of \$0.14, unchanged from Q2 2013. On a rolling 12-month basis, the dividend of \$0.55 represents a 25.0% increase over the preceding four quarters.
- TFG continues to pursue a progressive dividend policy with a target payout ratio of 30-50% of normalized earnings. The Q3 2013 DPS of \$0.14 brings the cumulative DPS since TFG's IPO to \$2.675.

Figure 5



# CASH FLOW & USES OF CASH

## CASH FLOW AND USES OF CASH

TFG's cash flows from operations increased by 10.1% in the first three quarters of 2013 compared with the same period of 2012, to \$299.7 million. Cash flows generated by the CLO portfolio continued to be the primary source of cash and increased by 9.0% in the period to Q3 2013 to \$361.5 million compared with the first three quarters of 2012. CLO cash flows are discussed in more detail in the Investment Portfolio section of this report.

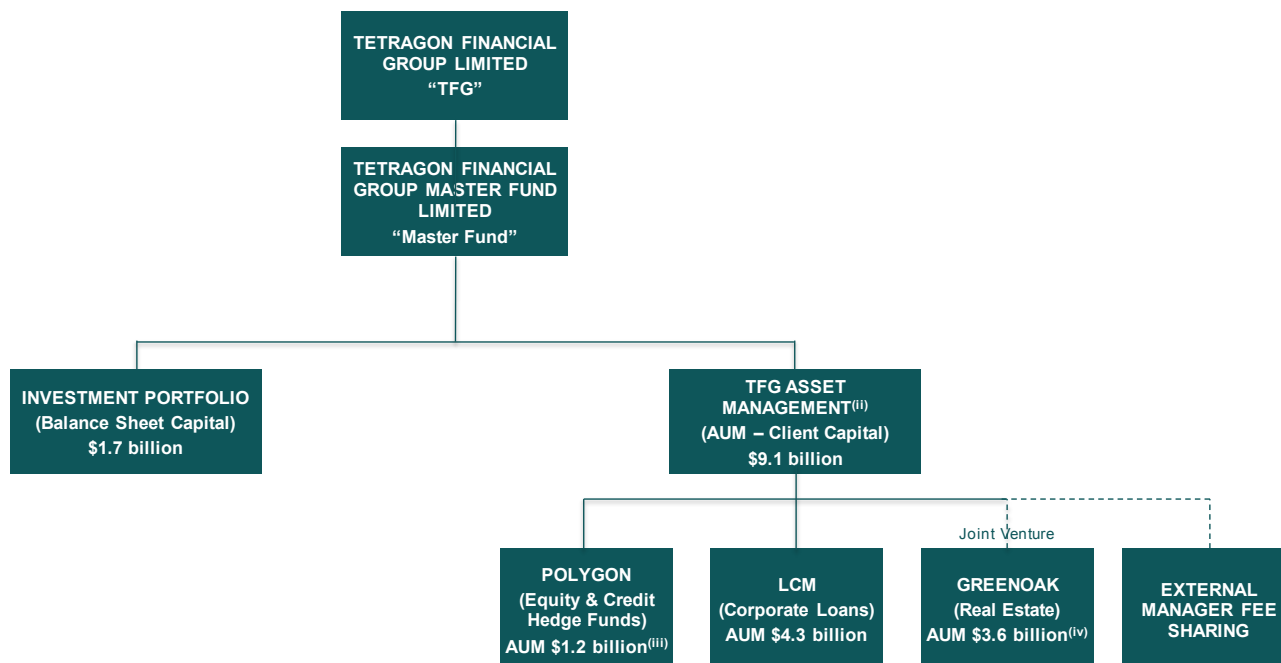
TFG invested \$46.4 million into the equity tranches of new CLO issues in the first three quarters of 2013, \$45.5 million of it in the first quarter, as the new issue CLO market slowed (and proved to be less attractive compared to other TFG investment opportunities) in the second and third quarters. In Q3 2013, TFG invested a small amount into a new CLO deal being managed by LCM Asset Management LLC ("LCM"). TFG continued to add to its investments in equities, credit and convertible bonds primarily via Polygon branded in-house managed funds and in real estate vehicles managed by GreenOak.

Net cash flows year to date from the sales, prepayments and maturity of loans is \$70.9 million, which is largely unchanged from the end of Q2 2013. TFG utilised \$40.1 million to pay dividends in the first three quarters of the year compared with \$37.3 million in the equivalent period in 2012. \$12.7 million was utilised to repurchase TFG's shares during the first three quarters of 2013.

At the end of Q3 2013, TFG's investible cash balance was \$226.8 million, approximately 13.0% of net assets, unchanged as a percentage from Q2 2013.

# TFG'S BUSINESS SEGMENTS: INVESTMENT PORTFOLIO AND ASSET MANAGEMENT PLATFORM (TFG ASSET MANAGEMENT)

Figure 6<sup>(i)</sup>



(i) This chart is a simplification of Tetragon's corporate structure and governance. The organisational structure and corporate governance of Tetragon can be found at [www.tetragoninv.com](http://www.tetragoninv.com).

(ii) AUM for TFG Asset Management includes, where relevant, investments by Tetragon Financial Group Master Fund Limited. TFG Asset Management as used in this report includes the assets under management of several investment advisers, including Tetragon Asset Management L.P., which is an investment manager registered under the U.S. Investment Advisers Act of 1940.

(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 September 2013. Includes, where relevant, investments by Tetragon Financial Group Master Fund Limited.

(iv) Includes funds and advisory assets at 30 September 2013. Includes, where relevant, investments by Tetragon Financial Group Master Fund Limited.

## TFG STRUCTURE OVERVIEW

TFG owns 1) an investment portfolio of \$1.7 billion of financial assets and 2) TFG Asset Management, a global alternative asset management business with \$9.1 billion of client assets under management. Investors may find the above chart useful to better understand the company's structure.

# TFG'S BUSINESS SEGMENTS: INVESTMENT PORTFOLIO AND ASSET MANAGEMENT PLATFORM (TFG ASSET MANAGEMENT)

## INVESTMENT PORTFOLIO

### INVESTMENT PORTFOLIO OVERVIEW

During Q3 2013, TFG continued to invest in U.S. corporate loans (by investing in the equity tranches of new issue U.S. CLOs managed by LCM and third-party managers), real estate (via GreenOak-managed vehicles), as well as credit, convertible bonds and equities, both directly and via investments in Polygon-managed hedge funds.

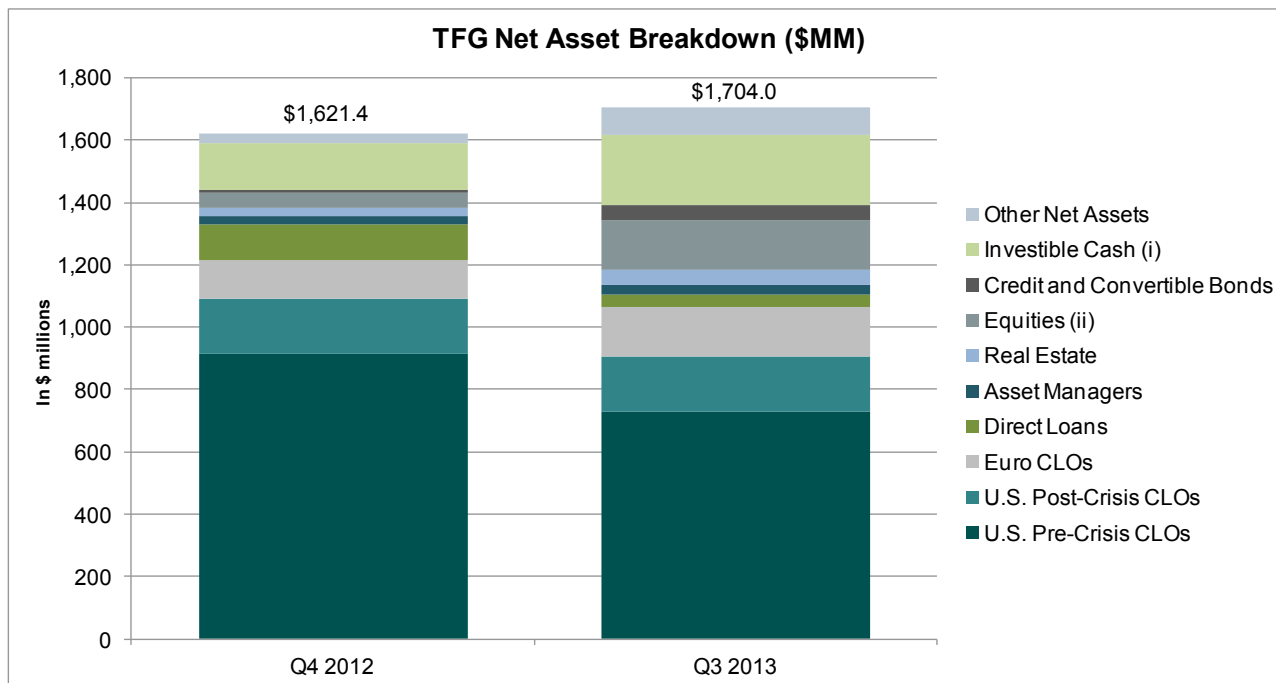
U.S. corporate loans accessed via CLO equity, which constitute the majority of TFG's investment assets, registered positive performance during Q3 2013, but saw declines in their expected future cash flows primarily as a result of loan spread tightening (which may be reflected with a lag in TFG's CLO portfolio as compared with the overall loan market), de-leveraging of certain U.S. Pre-Crisis CLOs which exited their reinvestment periods, and in some cases, losses on underlying CLO assets.

TFG's real estate, equity, credit and convertible bond investments continued to perform well during the quarter.

### PORTFOLIO COMPOSITION AND OUTLOOK

The following chart shows the composition of net assets by asset class for Q3 2013 and Q4 2012.

Figure 7



(i) Investible Cash consists of: (1) cash held directly by TFG Master Fund Limited, (2) excess margin held by brokers associated with assets held directly by TFG 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 characterized as "Equities" consist of the fair value of investments in Polygon-managed equity funds as well as the fair value of, or capital committed to, equity assets (as applicable) held directly on the balance sheet.



## INVESTMENT PORTFOLIO

TFG's net assets, which totalled \$1,704.0 million at the end of Q3 2013, consisted mainly of:

- Corporate loans, both directly owned and indirectly owned through CLO investments;
- Equity, credit, and convertible bonds, primarily owned through Polygon fund investments;
- Real estate (GreenOak investments); and
- Cash.

The following charts summarize selected performance metrics for certain asset classes in TFG's investment portfolio.

Figure 8a

Asset Type	September 2013 Net Assets (in \$MM)	LTM Performance
<b>U.S. Pre-Crisis CLOs</b> <sup>(i)</sup>	\$727.1	22.9% <sup>(ii)</sup>
<b>U.S. Post-Crisis CLOs</b> <sup>(i)</sup>	\$178.9	10.5% <sup>(ii)</sup>
<b>European CLOs</b>	\$155.2	53.7% <sup>(ii)</sup>
<b>U.S. Direct Loans</b>	\$43.1	4.5%

- (i) "U.S. Pre-Crisis CLOs" and "U.S. Post-Crisis CLOs" refers to U.S. CLOs issued before and after December 2008, respectively. TFG owns \$1.75 million notional in a CLO debt tranche. Such investment is excluded from these performance metrics.
- (ii) For CLOs and direct loans, calculated as the total return. The total return is calculated as the sum of the aggregate ending period fair values and aggregate cash flows received during the year, divided by the aggregate beginning period fair values for all such investments. LTM performance for U.S. Post-Crisis CLOs is weighted by the beginning of period fair values or cost if the investment was made less than 12 months before the current quarter-end. U.S. Post-Crisis CLO equity investments which were made during the year, and which therefore lack a full year of performance, are annualised. The LTM performance for European CLOs excludes the impact of any changes in the EUR-USD exchange rate on TFG's fair values and cash flows received for such investments.

Figure 8b

Asset Type	September 2013 Net Assets (in \$MM)	LTM Return on Time-Weighted Average Capital Invested <sup>(ii)</sup>
<b>Equities</b> <sup>(i)</sup>	\$158.5	22.9%
<b>Credit and Convertible Bonds</b>	\$46.9	13.5%

- (i) Assets characterized as "Equities" consist of the fair value of investments in Polygon-managed equity funds as well as the net assets of, or capital committed to, equity assets (as applicable) held directly on the balance sheet.
- (ii) Returns presented reflect the cumulative annualised performance for each asset type over TFG's period of investment from 1 December 2012 to 30 September 2013 against the time-weighted average capital invested. Returns for directly-held equities are calculated on the basis of cumulative investment-to-date performance and the time-weighted average required amount of margin posted with all relevant counterparties over the analysis period. Time-weighted average capital invested in each asset type is calculated for each investment through 30 September 2013, based on the actual number of days and assuming a 365-day year. TFG invests in Polygon-managed funds on a preferred fee-basis.

## INVESTMENT PORTFOLIO

### CORPORATE LOANS

TFG's exposure to the corporate loan asset class (whether held directly or indirectly via CLO equity investments) totalled \$1,104.4 million at the end of Q3 2013 (\$1,184.9 million at the end of Q2 2013) and remained diversified, with 73.7% in U.S. broadly-syndicated senior secured loans, 12.2% in U.S. middle-market senior secured loans and 14.1% in European senior secured loans.<sup>(13)</sup>

TFG's CLO equity investments, which comprise the majority of its exposure to corporate loan assets, represented indirect exposure to approximately \$16.4 billion par value of leveraged loans.

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

- U.S. Pre-Crisis CLOs
- U.S. Post-Crisis CLOs
- European CLOs
- Direct U.S. Loans

### U.S. PRE-CRISIS CLOs

As of the end of Q3 2013, TFG held equity investments in 52 U.S. Pre-Crisis CLOs and one investment in the debt tranche of a U.S. Pre-Crisis CLO.<sup>(14)</sup> U.S. Pre-Crisis CLO equity investments had total fair value of \$727.1 million as of 30 September 2013, compared with \$787.3 million at the end of the prior quarter. As of the end of Q3 2013 all U.S. Pre-Crisis CLOs were passing their junior-most O/C tests.<sup>(15)</sup>

During Q3 2013, TFG's U.S. Pre-Crisis CLO investments produced cash flows of \$76.1 million, compared with \$89.5 million generated in Q2 2013. This quarter-on-quarter decline was primarily driven by continued compression of CLO excess spread margins, the result of loan spread tightening and amortization of certain CLOs as they moved out of, or further beyond, the end of their reinvestment periods. Additionally, U.S. Pre-Crisis CLO managers which were able to reinvest during the quarter faced increasingly challenging reinvestment criteria as a result of tightening weighted average life, maturity and other collateral quality test constraints. We expect that the de-leveraging pace of U.S. Pre-Crisis CLOs will become an increasingly important driver of their mid-term cash flow generation capacity as well as a key input in our evaluation of the call options on these transactions. The pace of CLO amortisation will, in turn, depend on the repayment rate of the underlying loans as well as each transaction's reinvestment status, including the ability to reinvest repayment proceeds after the end of the reinvestment period. Although U.S. loan prepayments recently declined to 4.6% in Q3 2013 from 13.9% in Q2 2013,<sup>(16)</sup> we believe that prepayment rates, and therefore the pace of CLO wind-down, will continue to be volatile in the future, directly impacting the cash flow generation capacity of TFG's U.S. Pre-Crisis CLO equity investments.

### U.S. POST-CRISIS CLOs

As of the end of Q3 2013, TFG held 11 equity investments in U.S. Post-Crisis CLOs with a total fair value of \$178.9 million, down from \$209.0 million as of the end of Q2 2013. The decrease in fair value was primarily the result of the early redemption of one CLO, which was managed by LCM. We estimate the realized IRR to TFG on the redeemed investment to be over 17.0%. Additionally, during the quarter TFG made a small investment in the equity tranche of a new issue U.S. Post-Crisis CLO managed by LCM, totalling \$1.0 million at cost.

## INVESTMENT PORTFOLIO

### U.S. POST-CRISIS CLOs (continued)

The performance of TFG's U.S. Post-Crisis CLOs was shaped by the same loan market trends as the U.S. Pre-Crisis CLO portfolio, with continued spread tightening serving as the main driver of earnings for these investments. All U.S. Post-Crisis CLOs remained in compliance with their O/C tests as of the end of Q3 2013.<sup>(17)</sup> During Q3 2013, TFG's U.S. Post-Crisis CLO investments produced cash flows of \$35.4 million, as compared with \$12.6 million in the prior quarter. These gains in cash collections primarily reflect the early redemption of one CLO and an increase in the number of U.S. Post-Crisis CLO transactions that have reached their first payment dates.

### EUROPEAN CLOs

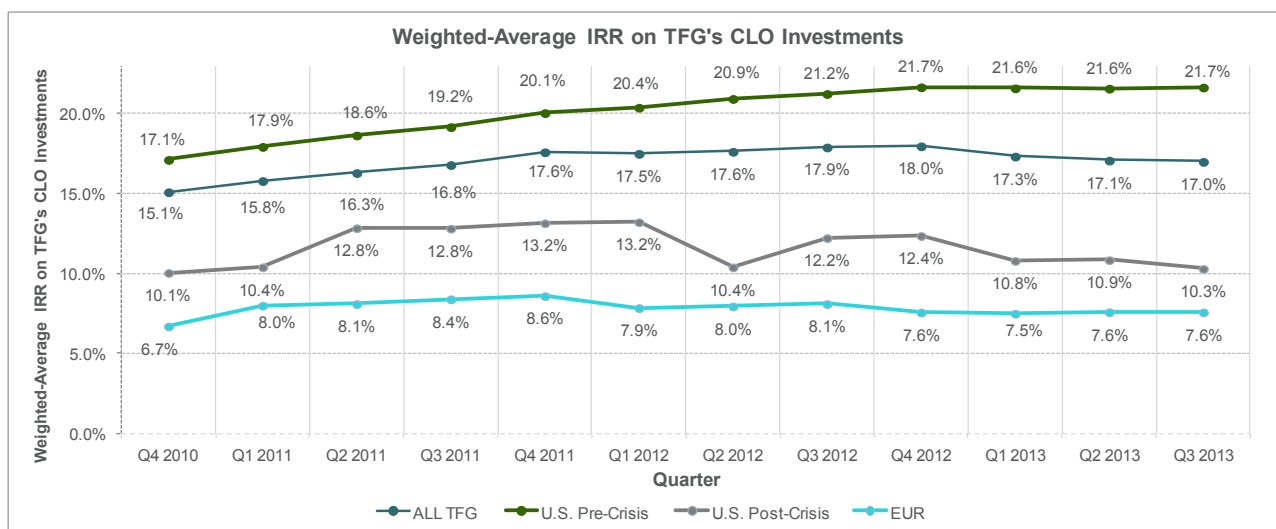
As of the end of Q3 2013, TFG held equity investments in 10 European CLOs with a total fair value of \$155.2 million, up from \$145.4 million as of the end of Q2 2013. Shortly after the end of the quarter, TFG made a secondary investment in the equity tranche of a European CLO at a cost of \$3.7 million.

The performance of TFG's European CLO equity investments in Q3 2013 has improved significantly, as O/C test levels of certain transactions increased and as previously accrued CLO liabilities and management fees were repaid, allowing for distributions to the equity tranches. Despite the progress made to date, we continue to expect that the performance of the European CLO portfolio may remain volatile, as a result of their relatively low excess structural and collateral quality test cushions.

During Q3 2013, TFG's European CLO investments generated cash flow of €9.2 million, compared with €5.0 million in the first quarter of 2013. We compare the cash flows generated by the European CLO investments over a six-month period, as European CLOs generally pay semi-annually, as opposed to quarterly for U.S. CLOs. As of the end of Q3 2013, 91.3% of all of TFG's European CLO investments were passing their junior-most O/C tests, weighted by fair value, and 90.0% were passing when weighted by number of deals.<sup>(18)</sup>

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

Figure 9



## INVESTMENT PORTFOLIO

### DIRECT LOANS

As of the end of Q3 2013, TFG held U.S. direct loan investments with a total fair value of \$43.1 million and par value of \$43.1 million, largely unchanged from the end of the prior quarter (\$43.2 million fair value and \$43.4 million par value). The fundamental credit metrics of this portfolio were stable during the quarter and there continued to be no defaults.

### EQUITIES

As of the end of Q3 2013, TFG held \$158.5 million of investments (at fair value) in equities via Polygon-managed equity funds as well as directly owned. The net assets attributable to directly owned equities currently consist primarily of the collateral posted (or otherwise held) by TFG in margin accounts with financial institutions. Similar to our approach to leveraged loan investing, we believe that TFG may benefit by owning equities outright, in addition to investing indirectly via Polygon-managed funds. TFG will continue to look to deploy additional capital into direct investments of equities, credit, and convertible bonds, when appropriate.

Currently, TFG's equity investments are primarily focused on European event-driven equity, global equities and mining equities-related investments. An initial equity fund investment was made on 1 December 2012, and through the end of Q3 2013, TFG's investments in equities (including both fund investments and direct investments) generated an annualised return on time-weighted average capital of approximately 22.9%.<sup>(19)</sup>

### CREDIT AND CONVERTIBLE BONDS

As of the end of Q3 2013, TFG held \$46.9 million of investments (at fair value) in Polygon-managed credit and convertible bond funds, up from \$20.8 million at the end of Q2 2013. An initial fund investment was made on 1 December 2012 and through the end of Q3 2013, TFG's investments in credit and convertible bonds generated an annualised return on time-weighted average capital of approximately 13.5%.<sup>(20)</sup>

### REAL ESTATE

As of the end of Q3 2013, TFG held \$50.3 million of investments (at fair value) in GreenOak-managed real estate funds and vehicles, including \$16.4 million of new capital investments funded during Q3 2013. Such investments include numerous commercial and residential properties across Japan, the United States and Europe.

The company expects to continue to fund capital commitments into GreenOak projects during the remainder of 2013.

### FINANCING SOURCES, HEDGING ACTIVITY AND OTHER MATTERS

As of the end of Q3 2013, TFG had no outstanding debt and the net consolidated cash on its balance sheet stood at \$256.9 million, compared to \$243.8 million at the end of Q2 2013. The balance of TFG's "investible cash," which excludes certain amounts consolidated for U.S. GAAP purposes but which are restricted to specific uses or otherwise unavailable to be invested, was \$226.8 million, compared to \$217.8 million at the end of Q2 2013.

TFG had no direct credit hedges in place at the end of Q3 2013, 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 U.S. inflation and/or nominal interest rates, respectively. We review our hedging strategy on an ongoing basis as we seek to address identified risks to the extent practicable and in a cost-effective manner.

# TFG ASSET MANAGEMENT

TFG Asset Management comprises the fee income-generating areas of TFG's portfolio: management and performance fees from internal and external asset managers. The three internal asset management brands, LCM, GreenOak and Polygon, continued to perform well through 30 September 2013.

## UPDATE ON KEY METRICS

- **Performance of the underlying funds:** all of the various funds managed by TFG Asset Management's brands had positive net performance through the end of Q3 2013.
- **Gross revenues:** composed primarily of management and performance fees from clients, totalled \$43.7 million through 30 September 2013.
- **"EBITDA equivalent":** totalled \$18.4 million through Q3 2013.

Figure 10

TETRAGON FINANCIAL GROUP		
TFG Asset Management Statement of Operations Through Q3 2013		
	U.S. GAAP	Net Economic
	\$MM	income
	(YTD)	\$MM
		(YTD)
Fee income <sup>(i)</sup>	43.7	43.7
Unrealised Polygon performance fees <sup>(ii)</sup>	-	2.1
Interest income	0.2	0.2
<b>Total income</b>	<b>43.9</b>	<b>46.0</b>
Operating, employee and administrative expenses <sup>(i)</sup>	(27.6)	(27.6)
<b>Net income - "EBITDA equivalent"</b>	<b>16.3</b>	<b>18.4</b>
Performance fee allocation to TFM	(1.7)	(2.2)
Amortisation expense on management contracts	(5.1)	(5.1)
<b>Net income before taxes</b>	<b>9.5</b>	<b>11.1</b>
Income taxes	(2.5)	(3.0)
<b>Net income</b>	<b>7.0</b>	<b>8.1</b>

(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.

(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 can be no assurance that the company will realise all or any portion of such amounts. Through 30 September 2013, this amount equalled \$2.1 million before (1) an assumed imputed tax charge and (2) estimated TFM performance fees reduced the net contribution to \$1.1 million as shown in Figure 10 and further represented in Figures 17 and 18 of this report.

## TFG ASSET MANAGEMENT

### ASSET MANAGEMENT BRANDS

AUM for LCM, GreenOak and Polygon are shown below at 30 September 2013.

Figure 11

Summary of TFG Asset Management AUM (\$BN)		
Brand	30 September 2013	30 June 2013
<b>LCM</b>	\$ 4.3	\$ 4.5
<b>GreenOak<sup>(i)</sup></b>	\$ 3.6	\$ 3.2
<b>Polygon<sup>(ii)</sup></b>	\$ 1.2	\$ 1.1
<b>Total</b>	\$ 9.1	\$ 8.8

(i) Includes funds and advisory assets.

(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.

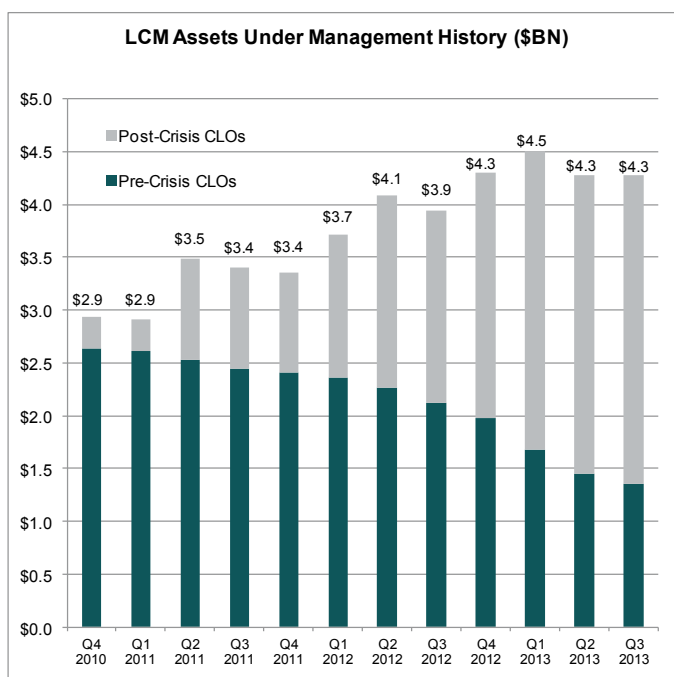
### LCM

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 Q3 2013, with all of LCM's Cash Flow CLOs that were still within their reinvestment periods continuing to pay senior and subordinated management fees.

At 30 September 2013, LCM's total CLO loan assets under management stood at approximately \$4.3 billion. During the quarter, LCM successfully raised LCM XIV, a \$400.0 million asset CLO which closed on 11 July 2013, while LCM VIII, with assets totalling approximately \$300.0 million, was called in mid-July 2013. LCM currently manages 11 CLOs.

Figure 12



## TFG ASSET MANAGEMENT

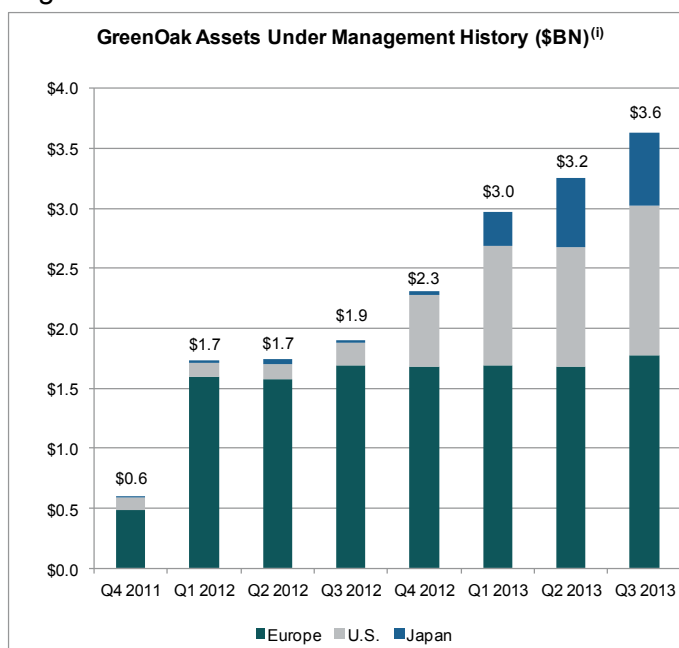
### GREENOAK

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 Q3 2013, 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.

At 30 September 2013, assets under management totalled approximately \$3.6 billion.

Figure 13



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

### POLYGON FUNDS

Total AUM for the Polygon funds was approximately \$1.2 billion at 30 September 2013. The funds continued to perform well through the end of Q3 2013. A distressed credit fund was launched in September 2013 and the team is currently building a performance track record in the strategy.

Figure 14

Summary of Polygon Funds Assets Under Management (\$ MM)			
Fund	30 Sep 2013	2013 Net Performance	Annualised LTD Performance
European Event-Driven Equity <sup>(i)</sup>	\$ 296	12.8%	13.8%
Convertibles <sup>(ii)</sup>	\$ 297	7.1%	21.4%
Mining Equities <sup>(iii)</sup>	\$ 51	1.6%	4.3%
Private Equity Vehicle <sup>(iv)</sup>	\$ 519	1.4%	6.9%
Distressed Credit <sup>(v)</sup>	\$ 25	1.2%	15.7%
Other Equity <sup>(vi)</sup>	\$ 17	16.8%	13.5%
<b>Polygon Funds' Total AUM<sup>(vii)</sup></b>	<b>\$1,205</b>		

- (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 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 is for the Polygon Convertible Opportunity Master Fund as calculated by the applicable fund administrator.

# TFG ASSET MANAGEMENT

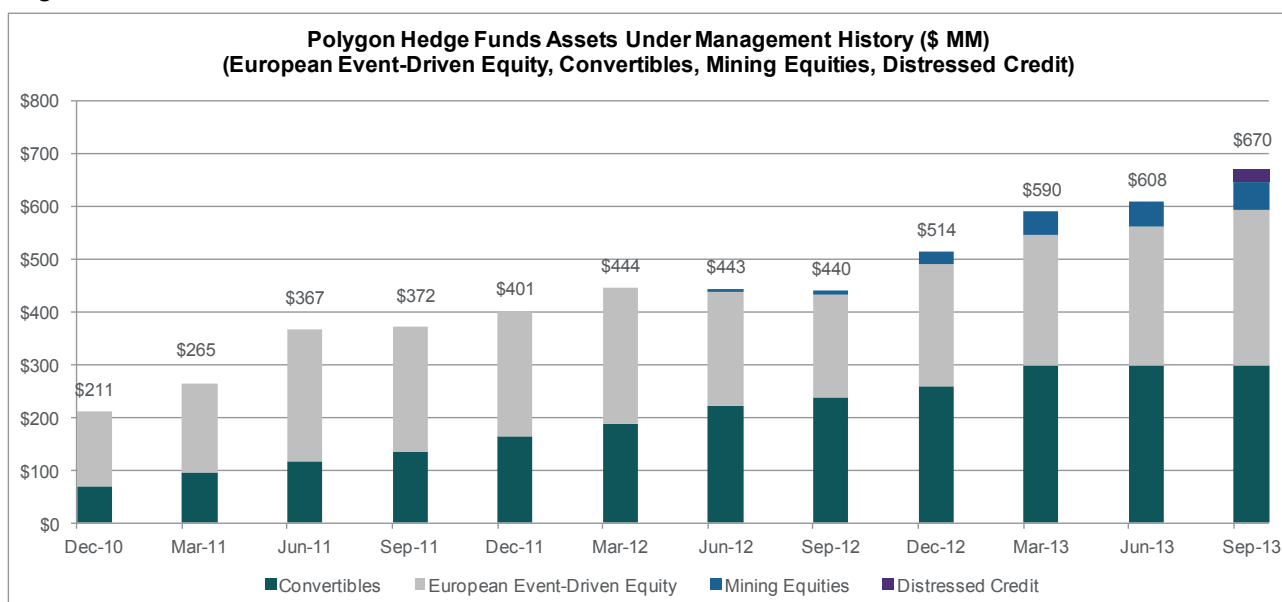
## POLYGON FUNDS (continued)

- (iii) The fund began trading with Class B1 shares, which carry no incentive fees, on 1 June 2012. Returns shown here 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. AUM figure is for the Polygon Mining Opportunity Master Fund as calculated by the applicable fund administrator.
- (iv) The fund's inception was on 8 March 2011. 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 is for the Polygon Recovery Fund LP as calculated by the applicable fund administrator.
- (v) The fund's inception was on 1 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 is for the Polygon Distressed Opportunities Master Fund as calculated by the applicable fund administrator.
- (vi) The fund began trading with Class B/B1 shares, which carry no incentive fees, on 12 September 2011. Returns shown here 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. AUM figure is for the Polygon Global Equities Master Fund 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.

Note: 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.

Figure 15<sup>(i)</sup>



(i) All values are as calculated by the applicable fund administrators for value date 30 September 2013.



# FINANCIAL TABLES

## FINANCIAL HIGHLIGHTS

Figure 16

TETRAGON FINANCIAL GROUP			
Financial Highlights Through Q3 2011-2013			
	Q3 2013	Q3 2012	Q3 2011
U.S. GAAP net income (\$MM) (YTD)	\$118.1	\$203.4	\$330.1
Net economic income (\$MM) (YTD)	\$136.5	\$203.4	\$330.1
U.S. GAAP EPS (YTD)	\$1.21	\$1.77	\$2.77
Adjusted EPS (YTD)	\$1.39	\$1.77	\$2.77
Return on equity (YTD)	8.4%	13.8%	29.0%
Net assets (\$MM)	\$1,704.0	\$1,623.6	\$1,413.6
U.S. GAAP number of shares outstanding (MM)	97.7	113.6	117.2
U.S. GAAP NAV per share	\$17.45	\$14.29	\$12.06
Pro Forma number of shares outstanding (MM)	110.0	113.6	117.2
Pro Forma fully diluted NAV per share	\$15.49	\$14.29	\$12.06
DPS	\$0.140	\$0.115	\$0.100

**In this section, we present consolidated financial data incorporating TFG and its 100% subsidiary, Tetragon Financial Group Master Fund Limited.**

We believe the following metrics may be helpful in understanding the progress and performance of the company:

- **Return on Equity (8.4%):** Net Economic Income (\$136.5 million) divided by Net Assets at the start of the year (\$1,624.4 million).
- **Net Economic Income (+\$136.5 million):** adds back to the U.S. GAAP net income (+\$118.1 million) the imputed Q3 2013 share based employee compensation (+\$17.3 million), which is generated on an ongoing basis resulting from the Polygon transaction and also includes unrealized Polygon performance fees<sup>(21)</sup> (+\$1.1 million).
- **Pro Forma Fully Diluted Shares (110.0 million):** adjusts the U.S. GAAP shares outstanding (97.7 million) for the impact of escrow shares used as consideration in the Polygon transaction and associated stock dividends (+12.3 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 (\$1.39):** calculated as Net Economic Income (\$136.5 million) divided by weighted-average U.S. GAAP shares outstanding (97.9 million).
- **Pro Forma Fully Diluted NAV per Share (\$15.49):** calculated as Net Assets (\$1,704.0 million) divided by Pro Forma Fully Diluted shares (110.0 million).<sup>(22)</sup>

## FINANCIAL TABLES

### STATEMENT OF OPERATIONS

Figure 17

<b>TETRAGON FINANCIAL GROUP</b>			
<b>Statement of Operations Through Q3 2011-2013</b>			
Statement of Operations	Q3 2013 (\$MM) (YTD)	Q3 2012 (\$MM) (YTD)	Q3 2011 (\$MM) (YTD)
Interest income	158.9	175.1	154.0
Fee income	43.7	18.8	15.9
Other income - cost recovery	15.4	-	-
<b>Investment income</b>	<b>218.0</b>	<b>193.9</b>	<b>169.9</b>
Management and performance fees	(50.7)	(73.3)	(115.5)
Other operating and administrative expenses	(73.8)	(14.8)	(18.8)
<b>Total operating expenses</b>	<b>(124.5)</b>	<b>(88.1)</b>	<b>(134.3)</b>
<b>Net investment income</b>	<b>93.5</b>	<b>105.8</b>	<b>35.6</b>
Net change in unrealised appreciation in investments	10.6	106.5	300.1
Realised gain on investments	11.0	0.6	0.6
Realised and unrealised gains/(losses) from hedging and fx	6.2	(5.4)	(1.8)
<b>Net realised and unrealised gains from investments and fx</b>	<b>27.8</b>	<b>101.7</b>	<b>298.9</b>
Income taxes	(3.2)	(2.4)	(3.0)
Noncontrolling interest	-	(1.7)	(1.4)
<b>U.S. GAAP net income</b>	<b>118.1</b>	<b>203.4</b>	<b>330.1</b>
Add back share based employee compensation	17.3	-	-
Net unrealised Polygon performance fees	1.1	-	-
<b>Net Economic Income</b>	<b>136.5</b>	<b>203.4</b>	<b>330.1</b>

#### Performance Fee

A performance fee of \$7.7 million was accrued in Q3 2013 in accordance with TFG's investment management agreement and based on a "Reference NAV" of Q2 2013. Year to date, the Investment Manager has earned performance fees of \$32.0 million. The hurdle rate for the Q4 2013 incentive fee has been reset at 2.893708% (Q3 2013: 2.920958%) as per the process outlined in TFG's 2012 audited financial statements and in accordance with TFG's investment management agreement.

Please see TFG's website, [www.tetragoninv.com](http://www.tetragoninv.com), and the 2012 TFG audited financial statements for more details on the calculation of this fee.

## FINANCIAL TABLES

### STATEMENT OF OPERATIONS BY SEGMENT

Figure 18

<b>TETRAGON FINANCIAL GROUP</b>			
<b>Statement of Operations by Segment Through Q3 2013</b>			
	<b>Investment Portfolio \$MM (YTD)</b>	<b>TFG AM \$MM (YTD)</b>	<b>Total \$MM (YTD)</b>
Interest income	158.7	0.2	158.9
Fee income	-	43.7	43.7
Other income - cost recovery	-	15.4	15.4
<b>Investment and management fee income</b>	<b>158.7</b>	<b>59.3</b>	<b>218.0</b>
Management and performance fees	(49.0)	(1.7)	(50.7)
Other operating and administrative expenses	(8.4)	(48.1)	(56.5)
Share based employee compensation	-	-	(17.3)
<b>Total operating expenses</b>	<b>(57.4)</b>	<b>(49.8)</b>	<b>(124.5)</b>
<b>Net investment income</b>	<b>101.3</b>	<b>9.5</b>	<b>93.5</b>
Net change in unrealised appreciation in investments	10.6	-	10.6
Realised gain on investments	11.0	-	11.0
Realised and unrealised gains from hedging and fx	6.2	-	6.2
<b>Net realised and unrealised gains from investments and fx</b>	<b>27.8</b>	<b>-</b>	<b>27.8</b>
Income taxes	(0.7)	(2.5)	(3.2)
<b>U.S. GAAP net income</b>	<b>128.4</b>	<b>7.0</b>	<b>118.1</b>
Share based employee compensation	-	-	17.3
Net unrealised Polygon performance fees	-	1.1	1.1
<b>Net economic income</b>	<b>128.4</b>	<b>8.1</b>	<b>136.5</b>

## FINANCIAL TABLES

### BALANCE SHEET

Figure 19

<b>TETRAGON FINANCIAL GROUP</b>		
<b>Balance Sheet as at 30 September 2013 and 31 December 2012</b>		
	<b>Sep-13</b>	<b>Dec-12</b>
	<b>\$MM</b>	<b>\$MM</b>
<b>Assets</b>		
Investments, at fair value	1,364.4	1,440.4
Management contracts	38.3	43.4
Cash and cash equivalents	256.9	175.9
Amounts due from brokers	42.6	13.1
Derivative financial assets	12.8	7.6
Property, plant and equipment	0.3	-
Deferred tax asset	1.2	-
Other receivables <sup>(i)</sup>	49.3	15.8
<b>Total assets</b>	<b>1,765.8</b>	<b>1,696.2</b>
<b>Liabilities</b>		
Other payables and accrued expenses	45.3	61.7
Amounts payable on share options	7.8	6.6
Income and deferred tax payable	0.3	4.3
Derivative financial liabilities	8.4	2.2
<b>Total liabilities</b>	<b>61.8</b>	<b>74.8</b>
<b>Net assets</b>	<b>1,704.0</b>	<b>1,621.4</b>

(i) Includes \$35 million of cash committed to investments which will migrate to investments, at fair value in Q4 2013.

# FINANCIAL TABLES

## STATEMENT OF CASH FLOWS

Figure 20

<b>TETRAGON FINANCIAL GROUP</b>			
<b>Statement of Cash Flows Through Q3 2011-2013</b>			
	<b>Q3 2013</b>	<b>Q3 2012</b>	<b>Q3 2011</b>
	<b>\$MM</b>	<b>\$MM</b>	<b>\$MM</b>
	<b>(YTD)</b>	<b>(YTD)</b>	<b>(YTD)</b>
<b>Operating Activities</b>			
Operating cash flows after incentive fees and before movements in working capital	294.5	272.6	155.1
Purchase of fixed assets	(0.4)	-	-
Change in payables/receivables	5.6	(0.3)	6.0
<b>Cash flows from operating activities</b>	<b>299.7</b>	<b>272.3</b>	<b>161.1</b>
<b>Investment Activities</b>			
<u>Proceeds on sales of investments</u>			
- Net proceeds from swap resets	4.6	-	-
- Proceeds sale of bank loans and maturity and prepayment of investments	91.4	65.6	112.4
- Proceeds on realisation of real estate investments	10.9	0.8	-
- Proceeds sale of derivatives - swaptions	2.6	-	-
- Proceeds sale of CLOs	-	0.2	-
<u>Purchase of investments</u>			
- Purchase of CLOs	(46.4)	(87.8)	(46.6)
- Purchase of bank loans	(20.5)	(44.6)	(129.2)
- Purchase of real estate investments	(33.4)	(9.8)	(1.4)
- Purchase of interest rate swaptions	-	-	(17.8)
- Investments in asset managers	(0.5)	(2.7)	-
- Investments in equities	(85.0)	-	-
- Investments in credit and convertible bonds	(60.0)	-	-
<b>Cash flows from operating and investing activities</b>	<b>163.4</b>	<b>194.0</b>	<b>78.5</b>
Amounts due from broker	(29.5)	2.8	(6.9)
Net purchase of shares	(12.7)	(17.3)	(20.6)
Dividends paid to shareholders	(40.1)	(37.3)	(33.4)
Distributions paid to noncontrolling interest	-	(0.8)	(2.6)
<b>Cash flows from financing activities</b>	<b>(82.3)</b>	<b>(52.6)</b>	<b>(63.5)</b>
Net increase in cash and cash equivalents	81.1	141.4	15.0
Cash and cash equivalents at beginning of period	175.9	211.5	140.6
Effect of exchange rate fluctuations on cash and cash equivalents	(0.1)	0.2	-
<b>Cash and cash equivalents at end of period</b>	<b>256.9</b>	<b>353.1</b>	<b>155.6</b>

## FINANCIAL TABLES

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

Figure 21<sup>(23)</sup>

<b>U.S. GAAP to Fully Diluted Shares Reconciliation<sup>(i)</sup></b>	
	<b>30 Sep 2013 Shares (MM)</b>
<b>Legal Shares Issued and Outstanding</b>	<b>134.50</b>
Less: Shares Held In Subsidiary	16.60
Less: Shares Held In Treasury	7.95
Less: Escrow Shares <sup>(23.i)</sup>	12.29
<b>U.S. GAAP Shares Outstanding</b>	<b>97.66</b>
Add: Manager (IPO) Share Options <sup>(23.ii)</sup>	0.04
Add: Escrow Shares <sup>(23.i)</sup>	12.29
<b>Pro Forma Fully Diluted Shares</b>	<b>109.99</b>

(i) As previously disclosed, on 28 October 2013, approximately 1.2 million non-voting shares of TFG (together with accrued dividends, the "Vested Shares") that were issued pursuant to TFG's acquisition in October 2012 of Polygon Management L.P. and certain of its affiliates (the "Polygon Transaction") will vest with certain persons (other than Messrs. Griffith and Dear whose shares will not vest on such date) (such persons, the "Sellers"), all of whom are employees of TFG, pursuant to the Polygon Transaction.

Certain of these employees are entering into a sales trading plan (the "Fixed Trading Plan") providing for the sale of up to an aggregate of approximately 105,000 Vested Shares in the market. Beginning on 15 November 2013, a brokerage firm will be authorized to sell such TFG shares under the Fixed Trading Plan pursuant to certain irrevocable instructions. The Fixed Trading Plan is intended to comply with TFG's Insider Trading Policy and Rule 10b5-1 under the United States Securities Exchange Act of 1934, as amended. The Fixed Trading Plan has been approved by TFG in accordance with its Insider Trading Policy, and will expire no later than 28 February 2014. Employees of TFG may enter into additional trading plans in the future from time to time.

Concurrently with the entry into the Fixed Trading Plan, the Sellers expect to agree to sell to Messrs. Griffith and Dear on 15 November 2013 an aggregate of approximately 225,000 Vested Shares at a price equal to the volume-weighted average trading price of the TFG shares over the period from October 1 through October 14, 2013 (adjusted for the Q3 2013 dividend). Messrs. Griffith and Dear have advised TFG that they have no plans to dispose of these shares.

For additional information regarding the Polygon Transaction and the future vesting schedule for shares issued thereunder, see Notes 4 and 9 to the 2012 Tetragon Financial Group Limited audited financial statements and Note 4 to the 2012 Tetragon Financial Group Master Fund Limited audited financial statements, each included in the TFG 2012 Annual Report.

Rule 10b5-1 provides a "safe harbor" that is designed to permit individuals to establish a pre-arranged plan to buy or sell company stock if, at the time such plan is adopted, the individuals are not in possession of material, nonpublic information.

# APPENDICES

## APPENDIX I

### CERTAIN REGULATORY INFORMATION

This Performance Report constitutes TFG's interim management statement as required pursuant to Section 5:25e of the Dutch Financial Markets Supervision Act ("FMSA"). Pursuant to Section 5:25e 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](http://www.tetragoninv.com)).

An investment in TFG involves substantial risks. Please refer to the Company's website at [www.tetragoninv.com](http://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 ("gereguleerde informatie") within the meaning of Section 1:1 of the FMSA.

# APPENDICES

## APPENDIX II

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

In accordance with the valuation policies set forth on the company's website, the values of TFG's CLO equity investments are determined using a third-party cash flow modeling 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 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 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 Modeling Assumptions Unchanged in Q3 2013

The Investment Manager reviews and, when appropriate, adjusts in consultation with TFG's audit committee, the CLO equity investment portfolio's modeling assumptions as described above. At the end of Q3 2013, 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.

Figure 22

#### U.S. Deals

Variable	Year	Current Assumptions
CADR		
	2013-2014	1.0x WARF-implied default rate (2.2%)
	2015-2017	1.25x WARF-implied default rate (2.7%)
	Thereafter	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 23

#### European Deals

Variable	Year	Current Assumptions
CADR		
	2013-2014	1.5x WARF-implied default rate (3.1%)
	2015-2017	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%



## APPENDICES

### APPENDIX II (Continued)

These key average assumption variables include the modeling 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, 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 288 bps on broadly syndicated U.S. loans, 272 bps on European loans, and 328 bps on middle market loans.

#### **Application of Discount Rate to Projected U.S. Pre-Crisis CLO Equity Cash Flows: European Discount Rates Recalibrated; U.S. Discount Rates Unchanged**

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 reductions which had been observed in previous quarters, and continued to edge lower. For example, according to Citibank research, BB spreads, which were 6.5% at the end of Q2 2013, finished Q3 2013 at 5.6%, whilst BBB spreads marginally decreased quarter on quarter.<sup>(24)</sup> Taking this into account, whilst also considering other market and deal related factors, the discount rates for the U.S. deals have, for now, been maintained at 15.0% for strong deals and 20.0% for other deals. Stability around these levels will be monitored closely as we move through Q4.

European observable risk premia, such as BB and BBB CLO tranche spreads, like their U.S. counterparts, have followed a downward trajectory since the middle of 2012. Taking the BB spreads for example, they have reduced from 22.0% at the end of Q2 2012 to 11.9% at the end of Q1 2013, then decreased further into Q3 2013 to 9.9%.<sup>(25)</sup> This tightening has resulted not just in a reduction of the European CLO mezzanine spreads at an absolute level, but also relatively when compared to the equivalent U.S. rates. For example, the differential between U.S. and European BB spreads has narrowed from 8.2% a year ago to approximately 4.3% at the end of Q3 2013.<sup>(26)</sup>

Whilst there remain certain factors which may support a differential between European and U.S. spreads, such as the CCC and O/C ratios in European deals and the higher risks connected with the ongoing Eurozone issue, observable data and other evidence are supportive of a reduction in the differential between the discount rates which are being applied to deals from these two geographies. Consequently, the discount rate applied to European deal projected cash flows has been reduced to 20.0% from 22.5%. We will continue to monitor observable factors in determining the appropriate discount rate as we move towards the end of the year.

Historically, we have characterized 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 modeled IRRs, as the "ALR Fair Value Adjustment" or "ALR". For European deals, at the end of Q3 2013 the ALR was \$51.0 million compared to \$56.4 million at the end of Q2 2013. As explained in prior reports, the ALR is now zero for U.S. deals.

## APPENDICES

### APPENDIX II (Continued)

#### **U.S. Post-Crisis CLOs – Discount Rates Remain at Deal IRRs**

The applicable discount rate for U.S. Post-Crisis CLOs 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 end of Q3 2013, the weighted-average discount rate (and IRR) on these deals was 10.3%. Such deals represented approximately 16.9% of the CLO equity portfolio by fair value (down from 18.3% at the end of Q2 2013). 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 Recalibration of Certain Discount Rates**

Overall, the net impact of the recalibration of European discount rates described above led to an overall increase in fair value of the total CLO equity portfolio of approximately \$9.1 million, or \$6.8 million in bottom line net income.

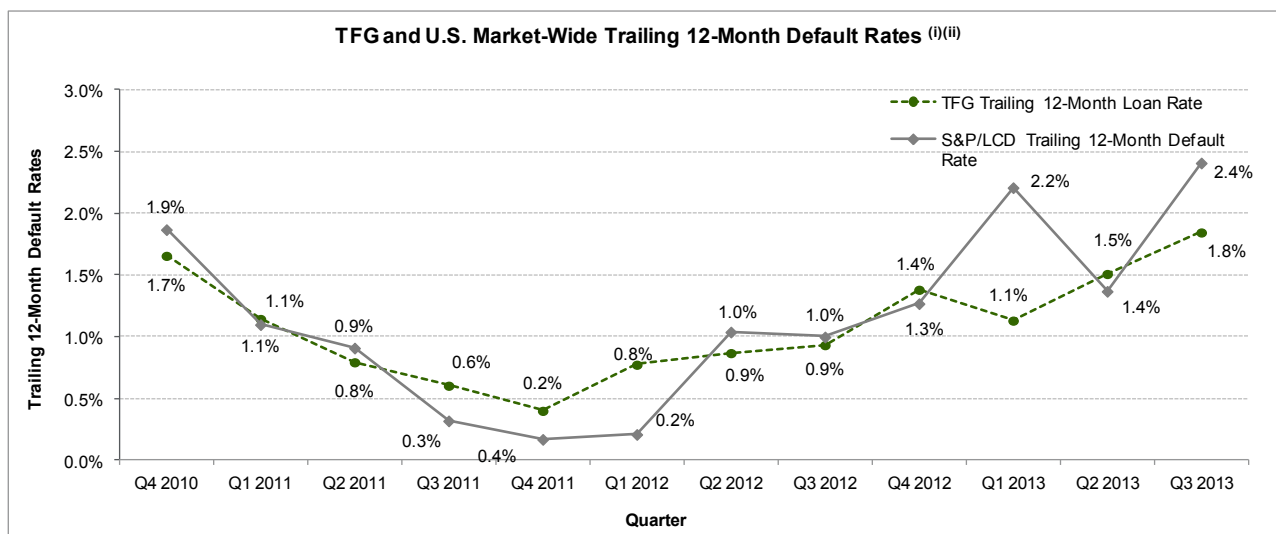
## APPENDICES

### APPENDIX III

#### CLO MARKET COMMENTARY

- U.S. leveraged loan default rate rises:** The U.S. lagged 12-month loan default rate rose to 2.41% by principal amount at the end of Q3 2013, up from 1.37% at the end of Q2 2013.<sup>(27)</sup> Despite the increase, the trailing 12-month U.S. loan default rate remains below the 3.2% historical average.<sup>(28)</sup> TFG's lagging 12-month loan default rate increased to 1.8% at the end of Q3 2013, up from 1.5% at the end of Q2 2013.<sup>(29)</sup> The graph below summarizes three-year history for both TFG and the U.S. market-wide loan default rates.

Figure 24



(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 in 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 14.1% CLOs with primary exposure to European senior secured loans and such loans are included in the calculation of TFG's corporate default rate.

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

- U.S. and European primary loan issuance remains robust despite deceleration:** Institutional U.S. loan issuance volumes declined modestly to \$100.8 billion in Q3 2013 vs. \$116.9 billion in Q2 2013.<sup>(30)</sup> Nonetheless, total institutional loan issuance for the first nine months of 2013 totalled \$367.0 billion, up 79.0% versus the prior year and only slightly below the prior 2007 full-year record, placing the market on a path to exceed that record should issuance continue at this pace.<sup>(31)</sup> European institutional leveraged loan issuance also declined to €8.7 billion in Q3 2013, down from €14.6 billion in Q2 2013, but year to date institutional volumes, totalling €31.1 billion, are up 173.0% vs. the prior year.<sup>(32)</sup>
- U.S. loan refinancing activity slows while M&A volumes rise:** U.S. leveraged loan issuers executed \$28.9 billion of leveraged loan re-pricings during Q3 2013 representing a significant decline from \$71.1 billion of such amendments executed in Q2 2013.<sup>(33)</sup> Conversely, M&A-linked volumes reached a post-credit crunch high at \$44.3 billion of institutional loans, up from \$27.2 billion in Q2 2013.<sup>(34)</sup>
- Loan performance positive year to date as European loan returns outpace the U.S.:** The U.S. S&P/LSTA Leveraged Loan Index returned 3.53% year to date as of the end of Q3 2013.<sup>(35)</sup> Total returns on the S&P European Leveraged Loan Index ("ELLI") stood at 6.15% year to date (including currency effects), outperforming the U.S. market and reflecting strong technical market conditions.<sup>(36)</sup>

## APPENDICES

### APPENDIX III (Continued)

- **U.S. repayments decline but rise in Europe:** The U.S. S&P/LSTA Leveraged Loan Index repayment rate declined to 4.6% during Q3 2013 vs. 13.9% in Q2 2013.<sup>(37)</sup> Prepayments within the S&P European Leveraged Loan Index (“ELLI”), on the other hand, rose to 11.0% during Q3 2013, up from 10.0% in the prior quarter.<sup>(38)</sup> Q3 2013 was the first quarter since 2012 that the European quarterly loan repayment rate outpaced the U.S. rate.<sup>(39)</sup>
- **U.S. and European CLO junior O/C ratios remain range-bound:** During Q3 2013, average O/C ratios of U.S. and European CLOs remained broadly stable with marginal changes as compared with the end of Q2 2013. According to Morgan Stanley, the median junior O/C test cushion for U.S. CLOs rose slightly to 5.17% at the end of Q3 2013<sup>(40)</sup> vs. 5.12% in Q2 2013.<sup>(41)</sup> The median junior O/C test cushion for Euro CLOs declined to 0.84% at the end of Q3 2013<sup>(42)</sup> vs. 0.86% at the end of the prior quarter.<sup>(43)</sup>
- **U.S. arbitrage CLO issuance volumes decline vs. prior quarters:** U.S. arbitrage cash flow CLO issuance totalled \$15.1 billion in Q3 2013, down from \$16.0 billion in Q2 2013 and \$26.3 billion in Q1 2013.<sup>(44)</sup> This decline reflected multiple headwinds, including a tightening of the equity “arbitrage funding gap” as AAA liability spreads remained persistently high in the face of generally tightening loan spreads as well as continued regulatory uncertainty with respect to U.S. CLO risk-retention. Nonetheless, year to date issuance of \$57.4 billion has already exceeded the 2012 total,<sup>(45)</sup> and market participants anticipate that issuance will continue at a measured pace during the remainder of the year.

## APPENDICES

### APPENDIX IV

#### ADDITIONAL CLO PORTFOLIO STATISTICS

- CLO Portfolio Credit Quality:** The weighted-average WARF across all of TFG's CLO equity investments stood at approximately 2,553 as of the end of Q3 2013. Each of these foregoing statistics represents a weighted-average summary (weighted by initial cost) of all of our deals. Each individual deal's metrics will differ from these averages and vary across the portfolio.

Figure 25

ALL CLOs	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Caa1/CCC+ or Below Obligors:	4.9%	5.0%	5.1%	6.0%	6.4%	5.7%	6.2%	7.0%	7.0%	7.2%	7.6%	8.3%
WARF:	2,553	2,568	2,541	2,599	2,605	2,578	2,588	2,624	2,614	2,642	2,664	2,671

U.S. CLOs	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Caa1/CCC+ or Below Obligors:	3.9%	4.1%	4.0%	4.5%	4.9%	4.2%	4.8%	5.5%	5.5%	5.8%	6.5%	6.9%
WARF:	2,534	2,550	2,510	2,524	2,528	2,491	2,504	2,533	2,522	2,542	2,591	2,622

EUR CLOs	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Caa1/CCC+ or Below Obligors:	9.1%	8.7%	9.7%	11.7%	12.2%	11.6%	11.1%	12.3%	12.0%	12.3%	11.4%	13.1%
WARF:	2,631	2,642	2,670	2,896	2,903	2,910	2,900	2,948	2,941	2,997	2,914	2,837

# APPENDICES

## APPENDIX IV (Continued)

### CLO EQUITY PORTFOLIO DETAILS AS OF 30 SEPTEMBER 2013

Figure 26

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)	Annualized (Loss) Gain of Cushion(viii)	IRR(ix)	ITD Cash Received as % of Cost(x)
Transaction 1	EUR CLO	37.5	2007	2024	2014	374	55	58	0.88%	3.86%	(0.48%)	0.6%	29.6%
Transaction 2	EUR CLO	29.7	2006	2023	2013	387	52	60	0.71%	3.60%	(0.42%)	9.6%	96.1%
Transaction 3	EUR CLO	22.2	2006	2022	2012	414	58	81	4.67%	5.14%	(0.06%)	12.1%	121.4%
Transaction 4	EUR CLO	33.0	2007	2023	2013	422	48	47	5.49%	5.76%	(0.04%)	15.6%	107.8%
Transaction 5	EUR CLO	36.9	2007	2022	2014	413	60	59	0.91%	5.74%	(0.78%)	9.4%	74.8%
Transaction 6	EUR CLO	33.3	2006	2022	2012	386	51	60	(0.13%)	4.70%	(0.66%)	5.3%	49.7%
Transaction 7	EUR CLO	38.5	2007	2023	2013	402	46	45	1.32%	3.64%	(0.36%)	6.0%	31.9%
Transaction 8	EUR CLO	26.9	2005	2021	2011	394	53	58	2.82%	4.98%	(0.27%)	8.7%	90.6%
Transaction 9	EUR CLO	41.3	2007	2023	2013	423	50	49	1.69%	6.27%	(0.71%)	6.5%	62.9%
Transaction 10	EUR CLO	27.0	2006	2022	2012	385	50	57	0.87%	4.54%	(0.51%)	4.4%	36.6%
<b>EUR CLO Subtotal:</b>		<b>326.3</b>				<b>400</b>	<b>52</b>	<b>56</b>	<b>1.80%</b>	<b>4.84%</b>	<b>(0.45%)</b>		<b>67.1%</b>
Transaction 11	US CLO	20.5	2006	2018	2012	311	45	50	7.11%	4.55%	0.36%	20.3%	176.9%
Transaction 12	US CLO	22.8	2006	2019	2013	346	46	52	8.09%	4.45%	0.53%	20.2%	175.0%
Transaction 13	US CLO	15.2	2006	2018	2012	336	47	49	5.00%	4.82%	0.03%	21.1%	190.5%
Transaction 14	US CLO	26.0	2007	2021	2014	351	49	50	2.98%	5.63%	(0.40%)	18.7%	166.5%
Transaction 15	US CLO	28.1	2007	2021	2014	417	52	48	3.56%	4.21%	(0.10%)	29.2%	212.8%
Transaction 16	US CLO	23.5	2006	2020	2013	399	46	45	3.37%	4.44%	(0.15%)	21.1%	188.6%
Transaction 17	US CLO	26.0	2007	2021	2014	337	40	40	4.48%	4.24%	0.04%	23.6%	181.2%
Transaction 18	US CLO	16.7	2005	2017	2011	306	45	54	11.17%	4.77%	0.81%	19.7%	187.9%
Transaction 19	US CLO	1.2	2005	2017	2011	306	45	54	11.17%	4.77%	0.81%	23.6%	182.1%
Transaction 20	US CLO	26.6	2006	2020	2012	423	52	67	5.47%	5.28%	0.03%	22.1%	190.8%
Transaction 21	US CLO	20.7	2006	2020	2012	410	53	69	5.26%	4.76%	0.07%	18.5%	170.4%
Transaction 22	US CLO	37.4	2007	2021	2014	421	53	53	2.92%	5.00%	(0.32%)	21.2%	168.0%
Transaction 23	US CLO	19.9	2007	2021	2013	320	66	89	5.12%	4.98%	0.02%	19.7%	170.1%
Transaction 24	US CLO	16.9	2006	2018	2012	420	46	49	5.91%	4.17%	0.24%	18.2%	157.4%
Transaction 25	US CLO	20.9	2006	2018	2013	408	46	48	7.01%	4.13%	0.43%	22.6%	181.6%
Transaction 26	US CLO	27.9	2007	2019	2013	426	43	47	5.78%	4.05%	0.26%	19.6%	161.7%
Transaction 27	US CLO	23.9	2007	2021	2014	560	51	51	10.83%	6.11%	0.70%	32.7%	230.8%
Transaction 28	US CLO	7.6	2007	2021	2014	560	51	51	10.83%	6.11%	0.70%	44.0%	156.6%
Transaction 29	US CLO	19.1	2005	2018	2011	392	66	236	23.26%	4.82%	2.31%	17.8%	171.2%
Transaction 30	US CLO	12.4	2006	2018	2012	435	67	96	4.33%	5.16%	(0.11%)	18.2%	163.6%
Transaction 31	US CLO	9.5	2005	2017	2012	308	52	86	7.24%	5.02%	0.27%	16.0%	184.5%
Transaction 32	US CLO	24.0	2007	2021	2014	318	59	59	4.03%	5.57%	(0.25%)	21.0%	165.3%
Transaction 33	US CLO	16.2	2006	2020	2012	363	56	123	8.75%	6.99%	0.23%	13.8%	153.4%
Transaction 34	US CLO	22.2	2006	2020	2012	364	50	61	6.04%	6.66%	(0.09%)	18.8%	173.7%
Transaction 35	US CLO	23.6	2006	2018	2012	450	52	124	11.95%	5.00%	0.96%	18.7%	172.7%
Transaction 36	US CLO	28.4	2007	2021	2013	420	46	60	2.76%	5.18%	(0.37%)	19.6%	160.4%
Transaction 37	US CLO	9.3	2005	2017	2011	292	50	129	17.73%	4.34%	1.67%	14.7%	162.8%
Transaction 38	US CLO	23.7	2007	2021	2013	322	42	45	4.19%	5.07%	(0.13%)	27.6%	206.6%
Transaction 39	US CLO	7.8	2005	2017	2011	429	70	447	72.52%	3.15%	8.73%	9.3%	89.6%
Transaction 40	US CLO	13.0	2006	2020	2011	377	39	52	N/A	N/A	N/A	21.2%	180.6%
Transaction 41	US CLO	22.5	2006	2020	2013	375	48	49	4.16%	4.71%	(0.08%)	21.8%	181.0%

# APPENDICES

## APPENDIX IV (Continued)

### CLO EQUITY PORTFOLIO DETAILS (CONTINUED) AS OF 30 SEPTEMBER 2013

Figure 26 (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)	Annualized (Loss) Gain of Cushion(viii)	IRR(ix)	ITD Cash Received as % of Cost(x)
Transaction 42	US CLO	22.4	2007	2021	2014	388	47	48	4.92%	3.92%	0.15%	22.0%	173.1%
Transaction 44	US CLO	22.3	2006	2018	2012	318	54	156	9.61%	4.16%	0.74%	9.7%	124.3%
Transaction 45	US CLO	23.0	2006	2018	2012	304	46	72	3.06%	4.46%	(0.21%)	8.3%	111.4%
Transaction 46	US CLO	21.3	2007	2019	2013	301	51	71	1.85%	4.33%	(0.39%)	7.2%	99.9%
Transaction 47	US CLO	28.3	2006	2021	2013	314	47	43	2.82%	4.34%	(0.22%)	21.5%	182.5%
Transaction 48	US CLO	23.0	2006	2019	2013	330	46	55	3.40%	5.71%	(0.33%)	15.5%	142.9%
Transaction 49	US CLO	12.6	2005	2017	2011	362	40	58	5.86%	3.94%	0.24%	12.3%	124.4%
Transaction 50	US CLO	12.3	2006	2018	2012	345	40	51	6.14%	4.25%	0.26%	13.3%	127.2%
Transaction 51	US CLO	18.0	2007	2020	2013	360	53	55	5.12%	4.47%	0.10%	21.2%	173.8%
Transaction 54	US CLO	0.5	2005	2017	2012	336	56	151	18.17%	3.69%	1.72%	54.6%	919.4%
Transaction 55	US CLO	0.3	2005	2017	2011	344	39	86	22.02%	3.59%	2.26%	58.4%	879.0%
Transaction 56	US CLO	23.0	2007	2019	2014	371	42	42	4.58%	4.53%	0.01%	22.8%	180.1%
Transaction 57	US CLO	0.6	2007	2019	2014	371	42	42	4.58%	4.53%	0.01%	48.9%	1000.9%
Transaction 58	US CLO	21.8	2007	2019	2014	374	49	49	3.61%	4.04%	(0.07%)	25.1%	188.1%
Transaction 59	US CLO	0.4	2007	2019	2014	374	49	49	3.61%	4.04%	(0.07%)	52.7%	1392.9%
Transaction 61	US CLO	29.1	2007	2021	2014	346	45	45	2.45%	4.04%	-0.25%	17.7%	139.6%
Transaction 62	US CLO	25.3	2007	2020	2013	329	42	43	4.10%	5.20%	(0.17%)	22.3%	184.2%
Transaction 63	US CLO	27.3	2007	2021	2013	380	53	53	2.12%	4.78%	(0.43%)	19.4%	161.9%
Transaction 64	US CLO	15.4	2007	2021	2013	409	38	44	N/A	N/A	N/A	22.9%	178.9%
Transaction 65	US CLO	26.9	2006	2021	2013	378	47	55	4.33%	4.96%	(0.09%)	15.3%	129.8%
Transaction 66	US CLO	21.3	2006	2020	2013	311	49	49	3.45%	4.05%	(0.09%)	22.4%	187.1%
Transaction 67	US CLO	27.3	2007	2022	2014	322	46	45	4.16%	4.38%	(0.03%)	20.5%	167.3%
Transaction 68	US CLO	19.3	2006	2020	2013	356	48	48	5.70%	4.41%	0.19%	27.4%	225.5%
Transaction 69	US CLO	28.2	2007	2019	2013	369	44	44	6.91%	5.61%	0.20%	26.6%	210.1%
Transaction 70	US CLO	24.6	2006	2020	2013	293	52	52	4.96%	6.21%	(0.18%)	18.9%	162.8%
Transaction 71	US CLO	1.7	2006	2018	2012	345	40	51	6.14%	4.25%	0.26%	25.8%	92.8%
Transaction 72	US CLO	4.8	2007	2019	2014	371	42	42	4.58%	4.53%	0.01%	20.6%	82.3%
Transaction 73	US CLO	1.9	2007	2019	2014	371	42	42	4.58%	4.53%	0.01%	20.6%	82.3%
Transaction 74	US CLO	5.5	2007	2019	2014	374	49	49	3.61%	4.04%	(0.07%)	22.5%	86.8%
Transaction 75	US CLO	32.7	2011	2022	2014	399	168	168	4.57%	4.05%	0.23%	12.1%	47.6%
Transaction 76	US CLO	1.9	2006	2018	2012	304	46	72	3.06%	2.43%	0.09%	33.3%	100.7%
Transaction 77	US CLO	14.5	2011	2023	2016	404	212	213	5.63%	5.04%	0.33%	12.7%	29.6%
Transaction 78	US CLO	22.9	2012	2023	2015	491	217	217	5.34%	4.00%	0.79%	14.4%	39.0%
Transaction 79	US CLO	19.4	2012	2022	2015	417	215	215	4.26%	4.00%	0.16%	7.2%	29.7%
Transaction 80	US CLO	22.7	2012	2022	2016	416	185	185	4.26%	4.17%	0.06%	10.9%	27.7%
Transaction 81	US CLO	21.7	2012	2024	2016	452	216	217	4.57%	4.00%	0.55%	7.6%	16.6%
Transaction 82	US CLO	25.4	2012	2022	2016	425	206	207	4.16%	4.00%	0.16%	8.1%	17.1%
Transaction 83	US CLO	20.8	2013	2025	2017	479	193	193	6.24%	4.02%	3.65%	11.9%	7.7%
Transaction 84	US CLO	24.6	2013	2023	2017	411	183	184	4.17%	4.02%	0.25%	8.3%	14.8%
Transaction 85	US CLO	1.0	2013	2025	2017	404	170	170	5.07%	4.00%	4.89%	7.4%	2.2%
<b>US CLO Subtotal:</b>		<b>1,309.3</b>				<b>379</b>	<b>72</b>	<b>85</b>	<b>5.70%</b>	<b>4.59%</b>	<b>0.23%</b>		<b>148.1%</b>
<b>Total CLO Portfolio:</b>		<b>1,635.5</b>				<b>383</b>	<b>68</b>	<b>79</b>	<b>4.92%</b>	<b>4.64%</b>	<b>0.09%</b>		<b>131.9%</b>

#### Notes

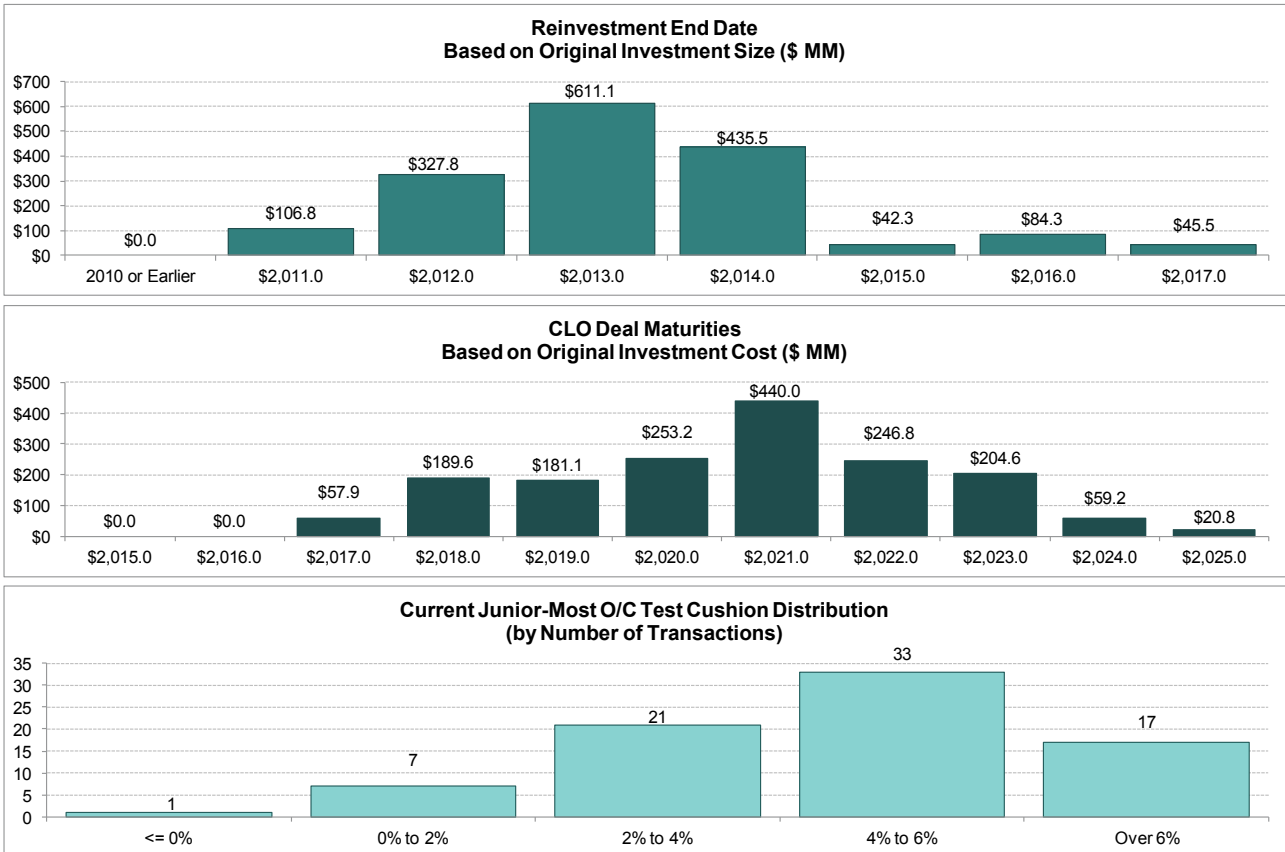
- (i) Transactions are investments made on a particular investment date. Multiple transactions may be associated with the same tranche of the same CLO deal. Note that Transaction 60 was removed from the table above, as the remaining value of the assets of the CLO is immaterial. Transaction 60 continues to be held as of 30 September 2013.
- (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 IV (Continued)

### CLO EQUITY PORTFOLIO DETAILS (CONTINUED) AS OF 30 SEPTEMBER 2013

Figure 27





## APPENDICES

### BOARD OF DIRECTORS

**Paddy Dear**

**Reade Griffith**

**Byron Knief\***

**Rupert Dorey\***

**David Jeffreys\***

**Greville Ward\***

\*Independent Director

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De Brauw Blackstone Westbroek N.V.  
Claude Debussylaan 80  
1082 MD Amsterdam  
The Netherlands

#### **Stock Listing**

NYSE Euronext in Amsterdam

#### **Administrator and Registrar**

State Street (Guernsey) Limited  
1<sup>st</sup> 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 “TFM” 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) The amount of capital invested during the quarter is net of certain repayments of capital for directly owned bank loans and real estate funds.
- (4) Please see endnote 2 above.
- (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 administrators for value date 30 September 2013. Includes, where relevant, investments by Tetragon Financial Group Master Fund Limited. TFG Asset Management as used in this report includes the assets under management of several investment advisers, including Tetragon Asset Management L.P., which is an investment manager registered under the U.S. Investment Advisers Act of 1940.

### Key Metrics

- (7) Please refer to Financial Highlights on page 17 of this report for the definition of Return on Equity.
- (8) Please see endnote 2 above.
- (9) Please refer to Financial Highlights on page 17 of this report for the definition of Net Economic Income.
- (10) Please see Figure 10, “TFG Asset Management Statement of Operations Through Q3 2013” on page 13 for the determination of TFG Asset Management EBITDA.
- (11) Please refer to Financial Highlights on page 17 of this report for the definition of Adjusted EPS.
- (12) Please refer to Financial Highlights on page 17 of this report for the definition of Pro Forma Fully Diluted Shares and Pro Forma Fully Diluted NAV per Share.

### Investment Portfolio

- (13) The CLO asset characterizations 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.
- (14) Please note that TFG may hold more than one investment in any CLO transaction within its portfolio.
- (15) Based on the most recent trustee reports available as of 30 September 2013.
- (16) S&P/LCD Leveraged Lending Review, Q3 2013.
- (17) Based on the most recent trustee reports available as of 30 September 2013.
- (18) Based on the most recent trustee reports available as of 30 September 2013.
- (19) Assets characterized as “Equities” consist of the fair value of investments in Polygon-managed equity funds as well as the net assets of, or capital committed to, equity assets (as applicable) held directly on the balance sheet. Cumulative annualised equity returns are calculated over TFG’s period of investment from 1 December 2012 to 30 September 2013 against the time-weighted average capital invested. Time-weighted average capital invested is calculated using each investment through 30 September 2013, the actual number of days and assuming a 365-day year, where the time-weighted capital for directly-held equities is calculated on the basis of the required amount of margin posted with all relevant counterparties over the analysis period. TFG invests in Polygon-managed funds on a preferred fee-basis.
- (20) Returns presented reflect the cumulative annualised performance for the asset type over TFG’s period of investment from 1 December 2012 to 30 September 2013 against the time-weighted average capital invested. Time-weighted average capital invested is calculated using each investment through 30 September 2013, based on the actual number of days and assuming a 365-day year. TFG invests in Polygon-managed funds on a preferred fee-basis.

## ENDNOTES (Continued)

### Financial Tables

- (21) 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 can be no assurance that the company will realise all or any portion of such amounts. Through 30 September 2013, this amount equalled \$2.1 million before (1) an assumed imputed tax charge and (2) estimated TFM performance fees reduced the net contribution to \$1.1 million as shown in Figure 10 and further represented in Figures 17 and 18 of this report.
- (22) 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 utilized 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) 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 a five-year period.
  - (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.
- (23) 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 utilized 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) 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 a five-year period.
  - (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 II

- (24) Citi Research – “Global Structured Credit Strategy” – 11 October 2013
- (25) Citi Research – “Global Structured Credit Strategy” – 11 October 2013
- (26) Citi Research – “Global Structured Credit Strategy” – 11 October 2013

## ENDNOTES (Continued)

### Appendix III

- (27) S&P/LCD News, "With one default in September, loan default rate hits 3-year high," 1 October 2013.
- (28) S&P/LCD News, "With one default in September, loan default rate hits 3-year high," 1 October 2013
- (29) 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 in 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 14.1% CLOs with primary exposure to European senior secured loans and such loans are included in the calculation of TFG's corporate default rate.
- (30) S&P/LCD Quarterly Review, Q3 2013.
- (31) S&P/LCD Quarterly Review, Q3 2013.
- (32) S&P/LCD Quarterly Review, Q3 2013.
- (33) S&P/LCD Quarterly Review, Q3 2013.
- (34) S&P/LCD Quarterly Review, Q3 2013.
- (35) S&P/LCD News, "Leveraged loans return 0.24% in September; YTD return is 3.53%," 1 October 2013.
- (36) S&P/LCD News, "(EUR) S&P ELLI: ELLI gains 1.02% in September, returns 6.69% YTD," 8 October 2013.
- (37) S&P/LCD Leveraged Lending Review, Q3 2013.
- (38) S&P/LCD News, "(EUR) ELLI repayments fall to €1.2B in September," 9 October 2013.
- (39) S&P/LCD News, "(EUR) ELLI repayments €1.6 billion in March," 8 April 2013.
- (40) Morgan Stanley CLO Market Tracker, 4 October 2013; based on a surveillance universe of 405 USD-denominated CLOs and 184 Euro-denominated CLOs.
- (41) Morgan Stanley CLO Market Tracker, 9 July 2013; based on a surveillance universe of 420 USD-denominated CLOs and 184 Euro-denominated CLOs.
- (42) Morgan Stanley CLO Market Tracker, 4 October 2013; based on a surveillance universe of 405 USD-denominated CLOs and 184 Euro-denominated CLOs.
- (43) Morgan Stanley CLO Market Tracker, 9 July 2013; based on a surveillance universe of 420 USD-denominated CLOs and 184 Euro-denominated CLOs.
- (44) S&P/LCD Quarterly Review, Q3 2013.
- (45) S&P/LCD Quarterly Review, Q3 2013.

**UNAUDITED CONSOLIDATED QUARTERLY REPORT**

**TETRAGON FINANCIAL GROUP LIMITED**

**FOR THE PERIOD ENDED 30 SEPTEMBER 2013 AND FOR THE PERIOD  
ENDED 30 SEPTEMBER 2012**

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**TETRAGON FINANCIAL GROUP LIMITED**  
**UNAUDITED CONSOLIDATED QUARTERLY REPORT**  
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**TETRAGON FINANCIAL GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**  
**As at 30 September 2013 (unaudited)**

	<b>30 Sep 2013</b> <b>US\$ '000</b>	<b>31 Dec 2012</b> <b>US\$ '000</b>
<b>Assets</b>		
Investment in Master Fund*	1,719,535	1,658,276
<b>Total assets</b>	<b>1,719,535</b>	<b>1,658,276</b>
<b>Liabilities</b>		
Accrued incentive fee	7,689	30,227
Amounts payable on share options	7,832	6,601
<b>Total liabilities</b>	<b>15,521</b>	<b>36,828</b>
<b>Net assets</b>	<b>1,704,014</b>	<b>1,621,448</b>
<b>Equity</b>		
Share capital	98	99
Share premium	952,237	964,966
Capital reserve in respect of share options	11,789	11,789
Share based employee compensation reserve	21,171	3,849
Earnings	718,719	640,745
	<b>1,704,014</b>	<b>1,621,448</b>
<b>Shares outstanding</b>		
	<b>Number</b>	<b>Number</b>
	<b>'000</b>	<b>'000</b>
Shares	97,665	98,805
<b>Net Asset Value per share</b>	<b>US\$ 17.45</b>	<b>US\$ 16.41</b>

\* Tetragon Financial Group Master Fund Limited

**TETRAGON FINANCIAL GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
For the period ended 30 September 2013 and for the period  
ended 30 September 2012 (unaudited)

	Quarter Ended 30 Sep 2013 US\$ '000	Quarter Ended 30 Sep 2012 US\$ '000	9 Months Ended 30 Sep 2013 US\$ '000	9 Months Ended 30 Sep 2012 US\$ '000
<b>Investment income allocated from the Master Fund</b>				
Interest income	48,992	59,362	158,864	175,135
Fee income	13,074	5,406	43,709	14,236
Other income – cost recovery	5,063	1,396	15,377	4,517
<b>Total investment income allocated from the Master Fund</b>	<b>67,129</b>	<b>66,164</b>	<b>217,950</b>	<b>193,888</b>
<b>Direct expenses</b>				
Incentive fee	(7,689)	(19,549)	(32,044)	(55,992)
<b>Total direct expenses</b>	<b>(7,689)</b>	<b>(19,549)</b>	<b>(32,044)</b>	<b>(55,992)</b>
<b>Operating expenses allocated from the Master Fund</b>				
Employee costs	(11,826)	(2,077)	(29,598)	(5,905)
Management fees	(6,319)	(5,962)	(18,661)	(17,277)
Share based employee compensation	(5,774)	-	(17,322)	-
Legal and professional fees	(4,662)	(2,226)	(7,434)	(5,949)
Interest expense	(286)	-	(286)	-
Audit fees	(87)	(55)	(246)	(165)
Other operating and administrative expenses	(6,298)	(1,051)	(18,863)	(2,831)
<b>Total operating expenses allocated from the Master Fund</b>	<b>(35,252)</b>	<b>(11,371)</b>	<b>(92,410)</b>	<b>(32,127)</b>
<b>Total operating expenses</b>	<b>(42,941)</b>	<b>(30,920)</b>	<b>(124,454)</b>	<b>(88,119)</b>
<b>Net investment income</b>	<b>24,188</b>	<b>35,244</b>	<b>93,496</b>	<b>105,769</b>
<b>Net increase / (decrease) in unrealized depreciation on:</b>				
Share options	1,487	(1,558)	(1,231)	(2,645)
<b>Net increase / (decrease) in unrealized depreciation arising from direct operations</b>	<b>1,487</b>	<b>(1,558)</b>	<b>(1,231)</b>	<b>(2,645)</b>



**TETRAGON FINANCIAL GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (continued)**  
For the period ended 30 September 2013 and for the period  
ended 30 September 2012 (unaudited)

	Quarter Ended 30 Sep 2013 US\$ '000	Quarter Ended 30 Sep 2012 US\$ '000	9 Months Ended 30 Sep 2013 US\$ '000	9 Months Ended 30 Sep 2012 US\$ '000
<b>Net realized and unrealized gain / (loss) from investments and foreign currency allocated from the Master Fund</b>				
Net realized gain from:				
Investments	5,939	541	10,965	610
Derivative financial instruments	1,200	-	1,200	-
Foreign currency transactions	2,744	6,676	2,963	11,477
	<u>9,883</u>	<u>7,217</u>	<u>15,128</u>	<u>12,087</u>
Net (decrease) / increase in unrealized (depreciation) / appreciation on:				
Investments	(2,318)	39,864	9,971	109,110
Derivative financial instruments	(7,174)	(10,188)	326	(15,525)
Translation of assets and liabilities in foreign currencies	5,487	1,768	3,573	(1,253)
	<u>(4,005)</u>	<u>31,444</u>	<u>13,870</u>	<u>92,332</u>
<b>Net realized and unrealized gain from investments and foreign currencies allocated from the Master Fund</b>	<u>5,878</u>	<u>38,661</u>	<u>28,998</u>	<u>104,419</u>
<b>Net increase from operations before tax</b>	<u>31,553</u>	<u>72,347</u>	<u>121,263</u>	<u>207,543</u>
Income and deferred tax expense	(888)	(867)	(3,204)	(2,489)
<b>Net income after tax</b>	<u>30,665</u>	<u>71,480</u>	<u>118,059</u>	<u>205,054</u>
Attributed to noncontrolling interest	-	(698)	-	(1,691)
<b>Net income</b>	<u>30,665</u>	<u>70,782</u>	<u>118,059</u>	<u>203,363</u>
<b>Earnings per Share</b>				
Basic	US\$ 0.31	US\$ 0.62	US\$ 1.21	US\$ 1.77
Diluted	US\$ 0.28	US\$ 0.62	US\$ 1.07	US\$ 1.77
<b>Weighted average Shares outstanding</b>	<b>Number '000</b>	<b>Number '000</b>	<b>Number '000</b>	<b>Number '000</b>
Basic	97,613	113,680	97,856	114,572
Diluted	109,936	113,680	110,179	114,572

**TETRAGON FINANCIAL GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
For the period ended 30 September 2013 and for the period  
ended 30 September 2012 (unaudited)

	<b>9 Months ended 30 Sep 2013 US\$ '000</b>	<b>9 Months ended 30 Sep 2012 US\$ '000</b>
Total investment income	217,950	193,888
Total operating expenses	(124,454)	(88,119)
Net unrealized depreciation on share options	(1,231)	(2,645)
Net realized gain from investments and foreign currencies allocated from the Master Fund	15,128	12,087
Net unrealized gain from investments and foreign currencies allocated from the Master Fund	13,870	92,332
Income and deferred tax expense	(3,204)	(2,489)
Attributed to noncontrolling interest	-	(1,691)
Net income	<u>118,059</u>	<u>203,363</u>
Share based employee compensation	17,322	-
Net increase in net assets resulting from operations	<u>135,381</u>	<u>203,363</u>
Dividends paid to shareholders	(40,085)	(37,231)
Issue of shares	3,342	6,752
Purchase of Treasury shares	(16,072)	(23,612)
Decrease in net assets resulting from net share transactions	<u>(12,730)</u>	<u>(16,860)</u>
<b>Total increase in net assets</b>	<b>82,566</b>	<b>149,272</b>
Net assets at start of period	1,621,448	1,474,355
<b>Net assets at end of period</b>	<u><b>1,704,014</b></u>	<u><b>1,623,627</b></u>

**TETRAGON FINANCIAL GROUP LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the period ended 30 September 2013 and for the period  
ended 30 September 2012 (unaudited)

	9 months ended 30 Sep 2013 US\$ '000	9 months ended 30 Sep 2012 US\$ '000
<b>Operating activities</b>		
Net increase in net assets resulting from operations	118,059	203,363
Adjustments for:		
Net unrealized depreciation on share options	1,231	2,645
Share based employee compensation reserve	17,322	-
Net unrealized appreciation on investments in the Master Fund	(61,258)	(148,242)
Operating cash flows before movements in working capital	75,354	57,766
Decrease in receivables	-	460
Decrease in payables	(22,537)	(3,675)
<b>Net cash provided by operating activities</b>	<b>52,817</b>	<b>54,551</b>
<b>Financing activities</b>		
Issue of shares	3,342	6,752
Purchase of Treasury shares	(16,072)	(24,072)
Dividends paid to shareholders	(40,085)	(37,231)
<b>Net cash used in financing activities</b>	<b>(52,817)</b>	<b>(54,551)</b>
<b>Net increase in cash and cash equivalents</b>	<b>-</b>	<b>-</b>
Cash and cash equivalents at beginning of period	-	-
<b>Cash and cash equivalents at end of period</b>	<b>-</b>	<b>-</b>

**UNAUDITED CONSOLIDATED QUARTERLY REPORT**

**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**

**FOR THE PERIOD ENDED 30 SEPTEMBER 2013 AND FOR THE PERIOD  
ENDED 30 SEPTEMBER 2012**

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**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**  
**UNAUDITED CONSOLIDATED QUARTERLY REPORT**  
**FOR THE PERIOD ENDED 30 SEPTEMBER 2013 AND FOR THE PERIOD**  
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**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**  
**As at 30 September 2013 (unaudited)**

	<b>30 Sep 2013</b>	<b>31 Dec 2012</b>
	<b>US\$ '000</b>	<b>US\$ '000</b>
<b>Assets</b>		
Investments, at fair value	1,364,363	1,440,437
Management contracts	38,255	43,395
Cash and cash equivalents	256,856	175,941
Amounts due from brokers	42,628	13,112
Derivative financial assets	12,788	7,620
Property, plant and equipment	328	30
Deferred tax asset	1,188	-
Other receivables	49,352	15,620
<b>Total assets</b>	<u>1,765,758</u>	<u>1,696,155</u>
<b>Liabilities</b>		
Derivative financial liabilities	8,402	2,180
Other payables and accrued expenses	37,496	31,361
Income tax payable	325	2,094
Deferred tax liability	-	2,244
<b>Total liabilities</b>	<u>46,223</u>	<u>37,879</u>
<b>Net assets</b>	<u>1,719,535</u>	<u>1,658,276</u>
<b>Equity</b>		
Share capital	98	99
Share premium	911,460	924,189
Earnings	786,806	730,139
Capital contribution	21,171	3,849
	<u>1,719,535</u>	<u>1,658,276</u>
	<b>Number</b>	<b>Number</b>
	<b>'000</b>	<b>'000</b>
<b>Shares outstanding</b>	97,665	98,805
<b>Net Asset Value per share</b>		
Shares	US\$ 17.61	US\$ 16.78

**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
For the period ended 30 September 2013 and for the period  
ended 30 September 2012 (unaudited)

	Quarter ended 30 Sep 2013 US\$ '000	Quarter ended 30 Sep 2012 US\$ '000	9 Months ended 30 Sep 2013 US\$ '000	9 Months ended 30 Sep 2012 US\$ '000
Interest income	48,992	59,362	158,864	175,135
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Other income – cost recovery	5,063	1,396	15,377	4,517
<b>Investment income</b>	<b>67,129</b>	<b>66,164</b>	<b>217,950</b>	<b>193,888</b>
Employee costs	(11,826)	(2,077)	(29,598)	(5,905)
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Legal and professional fees	(4,662)	(2,226)	(7,434)	(5,949)
Interest expense	(286)	-	(286)	-
Audit fees	(87)	(55)	(246)	(165)
Other operating and administrative expenses	(6,298)	(1,051)	(18,863)	(2,831)
<b>Operating expenses</b>	<b>(35,252)</b>	<b>(11,371)</b>	<b>(92,410)</b>	<b>(32,127)</b>
<b>Net investment income</b>	<b>31,877</b>	<b>54,793</b>	<b>125,540</b>	<b>161,761</b>
<b>Net realized and unrealized gain / (loss) from investments and foreign currency</b>				
Net realized gain from:				
Investments	5,939	541	10,965	610
Derivative financial instruments	1,200	-	1,200	-
Foreign currency transactions	2,744	6,676	2,963	11,477
	<b>9,883</b>	<b>7,217</b>	<b>15,128</b>	<b>12,087</b>
Net increase / (decrease) in unrealized appreciation / (depreciation) on:				
Investments	(2,318)	39,864	9,971	109,110
Derivative financial instruments	(7,174)	(10,188)	326	(15,525)
Translation of assets and liabilities in foreign currencies	5,487	1,768	3,573	(1,253)
	<b>(4,005)</b>	<b>31,444</b>	<b>13,870</b>	<b>92,332</b>
<b>Net realized and unrealized gain from investments and foreign currency</b>	<b>5,878</b>	<b>38,661</b>	<b>28,998</b>	<b>104,419</b>

**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (continued)**  
For the period ended 30 September 2013 and for the period  
ended 30 September 2012 (unaudited)

	Quarter ended 30 Sep 2013 US\$ '000	Quarter ended 30 Sep 2012 US\$ '000	9 Months ended 30 Sep 2013 US\$ '000	9 Months ended 30 Sep 2012 US\$ '000
<b>Net increase from operations before tax</b>	37,755	93,454	154,538	266,180
Income and deferred tax expense	(888)	(867)	(3,204)	(2,489)
<b>Net income after tax</b>	36,867	92,587	151,334	263,691
Attributed to noncontrolling interest	-	(698)	-	(1,691)
<b>Net income</b>	36,867	91,889	151,334	262,000



**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
For the period ended 30 September 2013 and for the period  
ended 30 September 2012 (unaudited)

	9 Months ended 30 Sep 2013 US\$ '000	9 Months ended 30 Sep 2012 US\$ '000
Net investment income	125,540	161,761
Net realized gain from investments and foreign currency	15,128	12,087
Net unrealized appreciation on investments and translation of assets and liabilities in foreign currencies	13,870	92,332
Income and deferred tax expense	(3,204)	(2,489)
Net income after tax	<u>151,334</u>	<u>263,691</u>
Share based employee compensation	17,322	-
Net increase in net assets resulting from operations	<u>168,656</u>	<u>263,691</u>
Dividends paid to TFG Limited in lieu of incentive fee liability	(54,582)	(59,668)
Dividends paid to other shareholders	(40,085)	(37,231)
Distributions paid to noncontrolling interest	-	(857)
Total distributions	<u>(94,667)</u>	<u>(97,756)</u>
Issue of shares	3,342	6,752
Purchase of Treasury shares	(16,072)	(23,612)
Decrease in net assets resulting from capital transactions	<u>(12,730)</u>	<u>(16,860)</u>
<b>Total increase in net assets</b>	<b>61,259</b>	<b>149,075</b>
<b>Net assets at start of period</b>	<b>1,658,276</b>	<b>1,499,313</b>
<b>Net assets at end of period</b>	<u><b>1,719,535</b></u>	<u><b>1,648,388</b></u>

**TETRAGON FINANCIAL GROUP MASTER FUND LIMITED**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the period ended 30 September 2013 and for the period  
ended 30 September 2012 (unaudited)

	9 months ended 30 Sep 2013 US\$ '000	9 months ended 30 Sep 2012 US\$ '000
<b>Operating activities</b>		
Net income after tax	151,334	263,691
Adjustments for:		
Realized gains on investments	(12,165)	(610)
Cash received on investments in excess of interest income	204,573	160,799
Share based employee compensation	17,322	-
Amortization on intangible assets	5,133	76
Depreciation on tangible assets	142	-
Unrealized gains	(13,870)	(92,332)
Deferred tax	(3,432)	640
Operating cash flows before movements in working capital	349,037	332,264
Decrease / (increase) in receivables	1,268	(422)
Increase in payables	4,366	151
Cash flows from operations	354,671	331,993
Purchase of fixed assets	(436)	-
Proceeds from sale / prepayment / maturity of investments	104,932	66,636
Purchase of investments	(245,733)	(144,924)
Net proceeds from swap resets	4,590	-
<b>Net cash provided by operating activities</b>	<b>218,024</b>	<b>253,705</b>
<b>Financing activities</b>		
Amounts due (to) / from brokers	(29,516)	2,741
Proceeds from issue of shares	3,342	6,752
Treasury shares	(16,072)	(24,072)
Dividends paid to shareholders	(40,085)	(37,231)
Dividends paid to TFG Limited in lieu of incentive fee liability	(54,582)	(59,668)
Distributions paid to noncontrolling interest	-	(857)
<b>Net cash used in financing activities</b>	<b>(136,913)</b>	<b>(112,335)</b>
<b>Net increase in cash and cash equivalents</b>	<b>81,111</b>	<b>141,370</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>175,941</b>	<b>211,513</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>	<b>(196)</b>	<b>229</b>
<b>Cash and cash equivalents at end of period</b>	<b>256,856</b>	<b>353,112</b>