

# Tetragon Financial Group Limited (“TFG”)

8 May 2014

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## TETRAGON



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# TFG - Introduction

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## TFG owns:

- \$1.8 billion of financial assets
- “TFG Asset Management”: a global alternative asset management business with approximately \$10.4 billion of assets under management (“AUM”) of client assets<sup>(i)</sup>

(i) Includes 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 Fund, as calculated by the applicable fund administrators at 31 March 2014. Includes, where relevant, investments by Tetragon Financial Group Master Fund Limited. Includes investment funds and advisory assets managed by GreenOak Real Estate, LP (“GreenOak”) at 31 March 2014. TFG owns a 23% stake in GreenOak.

# Investment Strategy

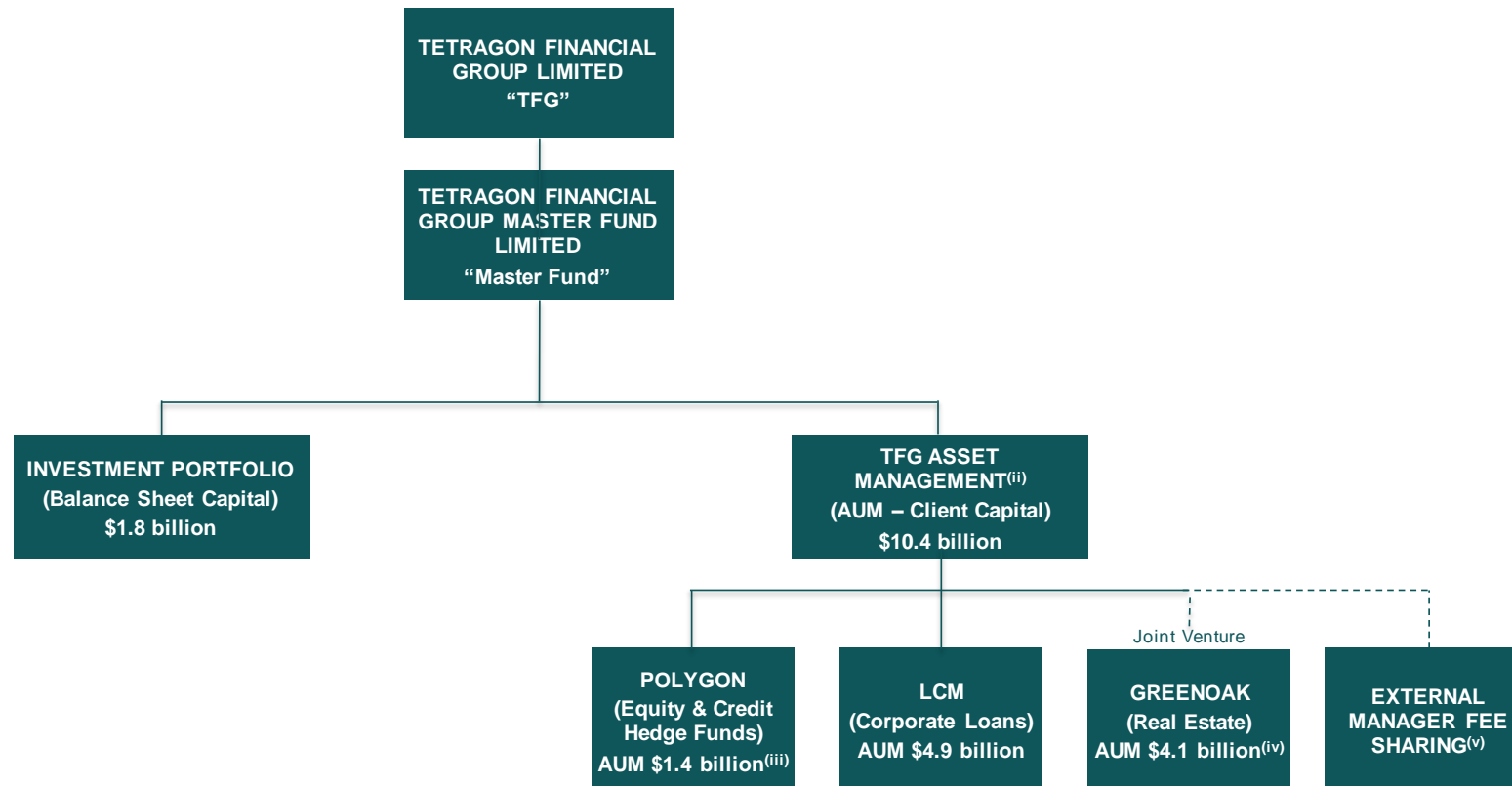
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TFG's current investment strategy is:

- To identify opportunities, **assets and asset classes** it believes to be attractive
- To identify asset managers it believes to be superior based on their track record and expertise
- To use the market experience of the Investment Manager to **negotiate favourable transactions** and terms for its investments in asset classes and in asset managers

As part of that strategy, TFG may seek to **own all or a portion of asset management companies** with which it invests so as to potentially add management and performance fee (or similar) income to the returns achieved on its invested capital

# Business Segment Overview



- (i) This chart is a simplification of TFG's corporate structure and governance. Further information on the organisational structure and corporate governance of TFG can be found at [www.tetragoninv.com](http://www.tetragoninv.com).
- (ii) AUM for TFG Asset Management includes, where relevant, investments by Tetragon Financial Group Master Fund Limited.
- (iii) AUM for Polygon Recovery Fund LP, Polygon Convertible Opportunity Master Fund, Polygon European Equity Opportunity Master Fund and associated managed account, Polygon Mining Opportunity Master Fund, Polygon Distressed Opportunities Master Fund and Polygon Global Equities Master Fund, as calculated by the applicable fund administrator at 31 March 2014. Includes, where relevant, investments by Tetragon Financial Group Master Fund Limited.
- (iv) Includes investment funds and advisory assets managed by GreenOak at 31 March 2014. TFG owns a 23% stake in GreenOak.
- (v) TFG currently receives asset management fee income derived from a number of one-off and long-term fee sharing arrangements with third-parties.

# Financials

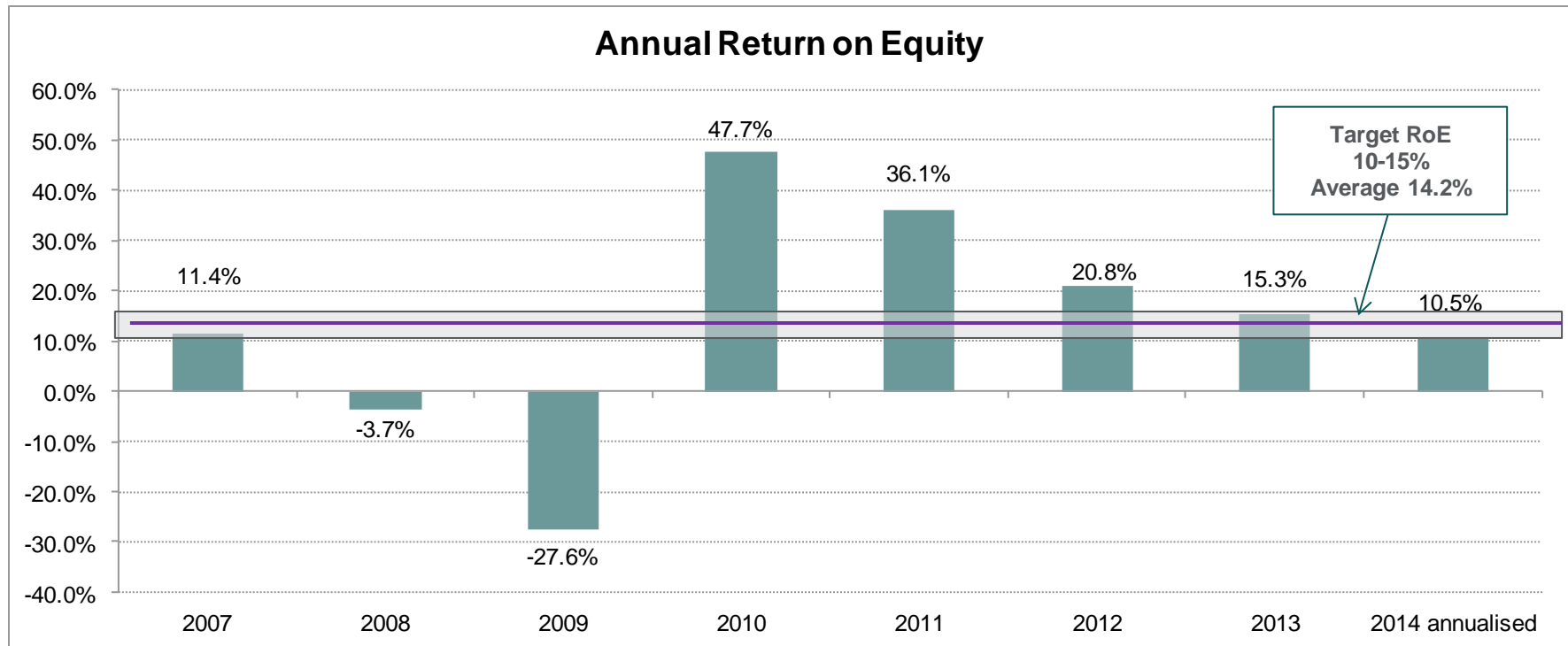
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We focus on three key metrics for TFG's business<sup>(i)</sup>:

1. **Earnings:** measured both as RoE and earnings per share ("EPS"), reflecting the operating performance of TFG.
2. **Net Asset Value ("NAV") per Share:** reflecting how value is being accumulated within the business.
3. **Dividends and other distributions:** reflecting how asset value has been returned to shareholders.

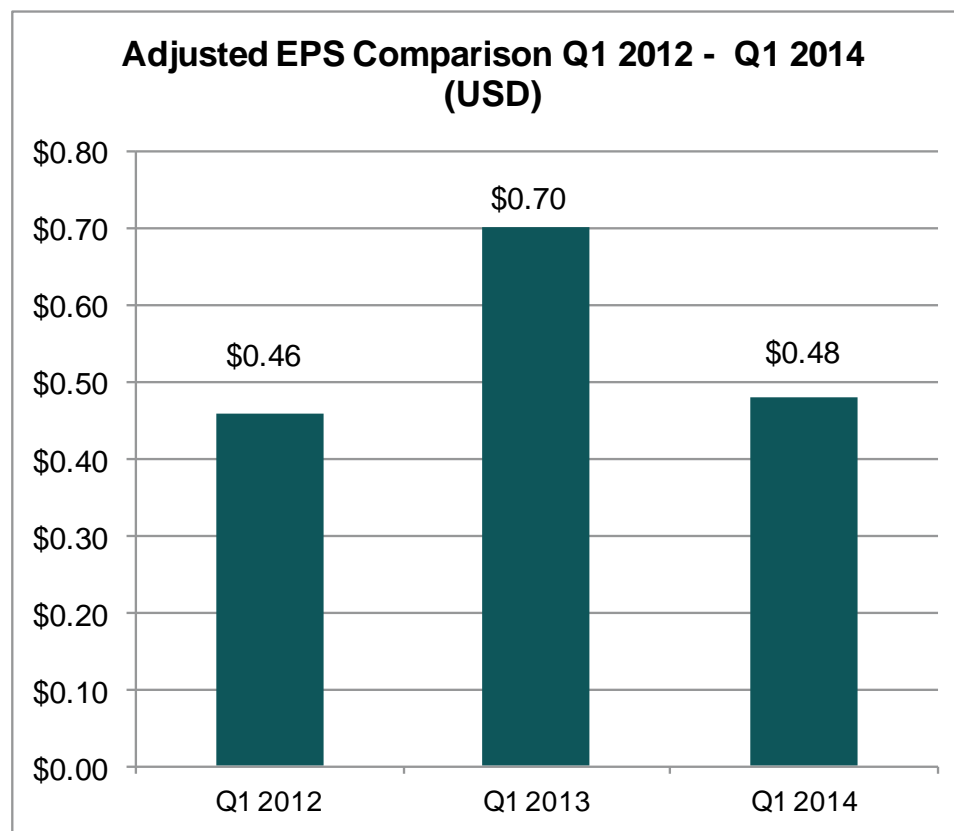
(i) Please see the company's Q1 2014 report for further information. Certain non-GAAP measures used herein are further defined on page 25 of the Q1 2014 report and on page 20 of this presentation.

# Key performance metrics – RoE<sup>(i)</sup>



(i) 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.

## Key metrics: Earnings Per Share<sup>(i)</sup>



(i) Please see page 20 of this presentation for certain relevant definitions.

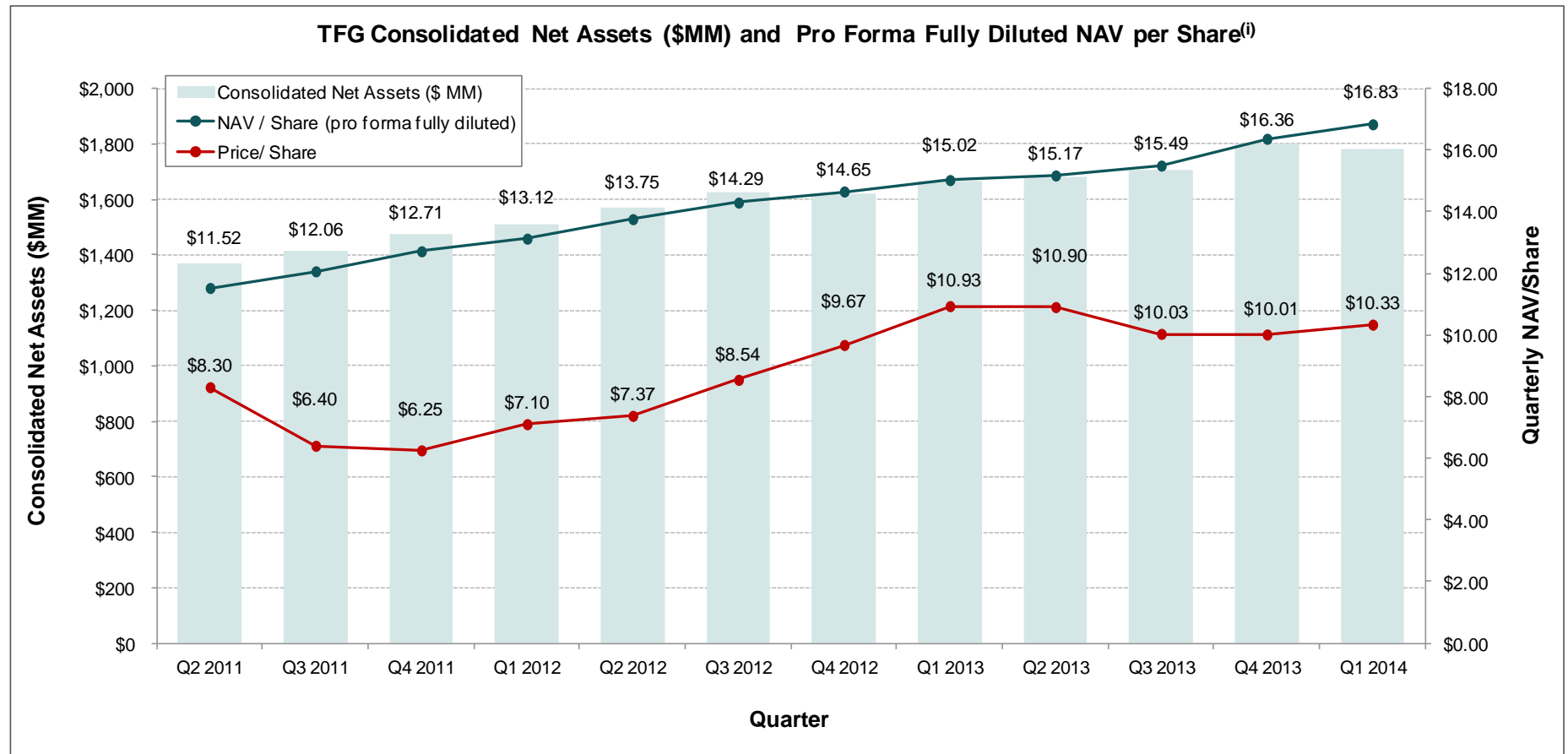


# Key metrics: Earnings Per Share

TETRAGON FINANCIAL GROUP		
TFG Earnings per Share Analysis (Q1 2013 - Q1 2014)		
	Q1 2014	Q1 2013
<b>Investment portfolio segment</b>		
U.S. CLO 1.0	\$0.19	\$0.69
U.S. CLO 2.0	\$0.05	\$0.04
European CLOs	\$0.05	\$0.17
U.S. Direct Loans	\$0.00	\$0.02
Hedges	(\$0.06)	\$0.01
Polygon Equity Funds	\$0.16	\$0.03
Polygon Credit, Convertibles & Distressed Funds	\$0.04	\$0.00
Other Equities, Credit Convertibles, Distressed	\$0.23	N/A
Real Estate	\$0.06	\$0.02
FX and Options	(\$0.01)	(\$0.02)
Expenses	(\$0.24)	(\$0.27)
<b>Net EPS investment portfolio</b>	<b>\$0.47</b>	<b>\$0.69</b>
<b>Asset Management Segment - TFG AM</b>	<b>\$0.04</b>	<b>\$0.03</b>
Corporate Income taxes	(\$0.03)	(\$0.02)
<b>Net Economic Income EPS</b>	<b>\$0.48</b>	<b>\$0.70</b>
Weighted Average Shares (millions) <sup>(i)</sup>	97.8	98.4

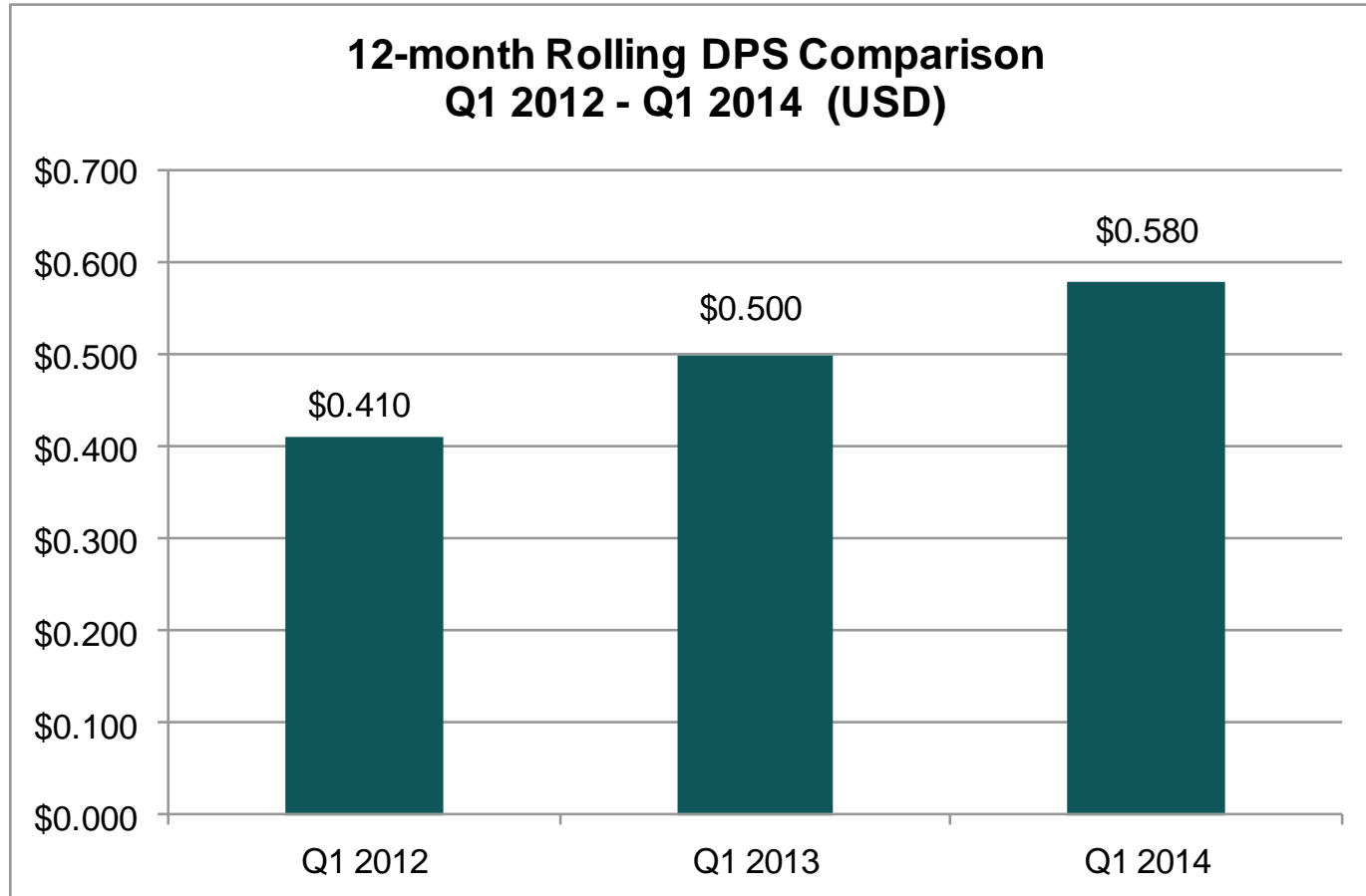
(i) The time-weighted average daily U.S. GAAP Shares outstanding during the applicable year.

# Key metrics: NAV per Share



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

## Key metrics: Dividends Per Share (DPS)



# Statement of Operations – Year on Year Comparison

<b>TETRAGON FINANCIAL GROUP</b>			
<b>Statement of Operations</b>			
	Q1 2014	Q1 2013	Q1 2012
	\$MM	\$MM	\$MM
Interest income	45.0	56.6	57.5
Fee income	12.7	11.6	5.7
Unrealised Polygon performance fees	3.4	0.9	-
Other income - cost recovery	5.6	5.8	-
<b>Investment income</b>	<b>66.7</b>	<b>74.9</b>	<b>63.2</b>
Management and performance fees	(18.1)	(25.0)	(19.5)
Other operating and administrative expenses	(23.5)	(16.4)	(4.8)
<b>Total operating expenses</b>	<b>(41.6)</b>	<b>(41.4)</b>	<b>(24.3)</b>
<b>Net investment income</b>	<b>25.1</b>	<b>33.5</b>	<b>38.9</b>
Net change in unrealised appreciation in investments	16.8	35.2	17.0
Realised gain on investments	15.2	3.0	0.1
Realised and unrealised gains/(losses) from hedging, fx and options	(7.8)	(0.8)	(1.5)
<b>Net realised and unrealised gains from investments and fx</b>	<b>24.2</b>	<b>37.4</b>	<b>15.6</b>
<b>Net economic income before tax and noncontrolling interest</b>	<b>49.3</b>	<b>70.9</b>	<b>54.5</b>
Income tax	(2.1)	(1.6)	(0.6)
Noncontrolling interest	-	-	(0.5)
<b>Net economic income</b>	<b>47.2</b>	<b>69.3</b>	<b>53.4</b>

# Statement of Operations By Segment

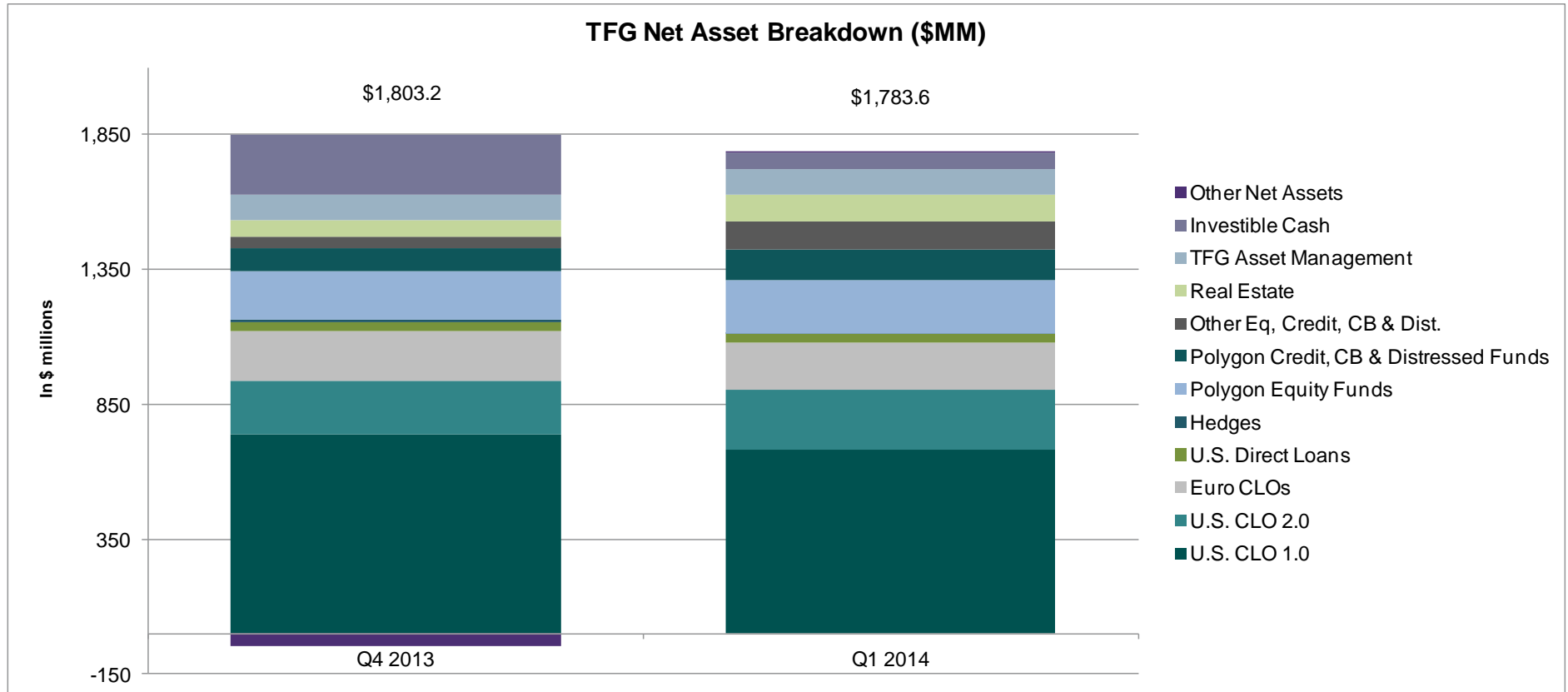
TETRAGON FINANCIAL GROUP			
Statement of Operations by Segment Q1 2014			
	Investment Portfolio \$MM	TFG AM \$MM	Total \$MM
Interest income	44.9	0.1	45.0
Fee income	-	12.7	12.7
Unrealized Polygon performance fees	-	3.4	3.4
Other income - cost recovery	-	5.6	5.6
<b>Investment and management fee income</b>	<b>44.9</b>	<b>21.8</b>	<b>66.7</b>
Management and performance fees	(17.7)	(0.4)	(18.1)
Other operating and administrative expenses	(6.3)	(17.2)	(23.5)
<b>Total operating expenses</b>	<b>(24.0)</b>	<b>(17.6)</b>	<b>(41.6)</b>
Net change in unrealised appreciation in investments	16.8	-	16.8
Realised gain on investments	15.2	-	15.2
Realised and unrealised gains/(losses) from hedging, fx and options	(7.8)	-	(7.8)
<b>Net realised and unrealised gains from investments and fx</b>	<b>24.2</b>	<b>-</b>	<b>24.2</b>
<b>Net economic income before tax</b>	<b>45.1</b>	<b>4.2</b>	<b>49.3</b>

# TFG Asset Management Statement of Operations

TETRAGON FINANCIAL GROUP		
TFG Asset Management Statement of Operations Q1 2014 vs. Q1 2013		
	Q1 2014 \$MM	Q1 2013 \$MM
Fee income <sup>(i)</sup>	12.7	11.6
Unrealised Polygon performance fees	3.4	0.9
Interest income	0.1	0.1
<b>Total income</b>	<b>16.2</b>	<b>12.6</b>
Operating, employee and administrative expenses <sup>(i)</sup>	(9.9)	(7.3)
<b>Net income - "EBITDA equivalent"</b>	<b>6.3</b>	<b>5.3</b>
Performance fee allocation to TFM	(0.4)	(0.5)
Amortisation expense on management contracts	(1.7)	(1.7)
<b>Net economic income before taxes</b>	<b>4.2</b>	<b>3.1</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. Fee income includes amounts earned through third-party fee sharing arrangements. It also includes any fees earned through fees paid on investments made by TFG in Polygon hedge funds or other investment vehicles. TFG is able to invest at a preferred level of fees.

# TFG's Investment Portfolio



- (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.

# TFG's Investment Portfolio

Asset Type	31 Mar 2014 Net Assets (in \$MM)	Income <sup>(iv)</sup> Q1 2014 (in \$MM)
<b>U.S. CLO 1.0<sup>(i)</sup></b>	\$681.2	\$17.9
<b>U.S. CLO 2.0<sup>(i)</sup></b>	\$222.3	\$5.2
<b>European CLOs</b>	\$177.4	\$4.9
<b>U.S. Direct Loans</b>	\$32.1	\$0.3
<b>Hedges<sup>(ii)</sup></b>	\$5.9	-\$6.2
<b>Polygon Equity Funds</b>	\$196.7	\$15.6
<b>Polygon Credit, Convertibles &amp; Distressed Funds</b>	\$113.0	\$3.8
<b>Other Equities, Credit, Convertibles, Distressed<sup>(iii)</sup></b>	\$104.5	\$23.0
<b>Real Estate</b>	\$98.5	\$5.7

- (i) "U.S. CLO 1.0" refers to U.S. CLOs issued before or during 2008. "U.S. CLO 2.0" refers to U.S. CLOs issued after 2008.
- (ii) "Hedges" refers to interest rate swaption hedges put in place in relation to certain interest rate risks relating to the CLO portfolio.
- (iii) Assets characterized as "Other Equities, Credit, Convertibles, Distressed" consist of the fair value of, or capital committed to, investment assets held directly on the balance sheet.
- (iv) "Income" refers to the total income generated by each category in the quarter including where applicable, realized and unrealized gains and losses as well interest income, dividends and certain associated direct expenses such as interest expense on swaps.



# TFG Asset Management

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- Good performance from all of the underlying funds
- Fee Income<sup>(i)</sup> was \$16.1 million for Q1 2014
- “EBITDA equivalent” - \$6.3 million
- Assets Under Management - \$10.4 billion<sup>(ii)</sup>

(i) Fee income nets off cost of recovery on “Other fee income” against this cost contained in “Operating, employee, and administrative expenses.” Operating costs also removes amortisation from the U.S. GAAP segmental report. Fee income includes amounts earned through third-party fee sharing arrangements. It also includes any fees earned through fees paid on investments made by TFG in Polygon hedge funds or other investment vehicles. TFG is able to invest at a preferred level of fees. 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 31 March 2014, this amount equalled \$3.4 million before (1) an assumed imputed tax charge and (2) estimated TFM performance fees reduced the net contribution to \$1.8 million.

(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 Distressed Opportunities Master Fund and Polygon Global Equities Master Fund, as calculated by the applicable fund administrator at 31 March 2014. Includes, where relevant, investments by Tetragon Financial Group Master Fund Limited. Includes investment funds and advisory assets managed by GreenOak at 31 March 2014. TFG owns a 23% stake in GreenOak.

## Potential New Investments for the Next 12 Months<sup>(i)</sup>

Asset Class	31 March 2014 Net Assets	Potential New Investment Amounts
U.S. CLO 1.0	\$681.2 million	-
U.S. CLO 2.0	\$222.3 million	\$50 - \$125 million
European CLOs	\$177.4 million	No current plans
U.S. Direct Loans	\$32.1 million	No current plans
Polygon Equity Funds	\$196.7 million	\$0 - \$50 million
Polygon Credit, Convertibles & Distressed Funds	\$113.0 million	\$40 - \$100 million
Other Equities, Credit, Convertibles & Distressed <sup>(ii)</sup>	\$104.5 million	\$0 - \$50 million
Real Estate	\$98.5 million	\$25 - \$75 million
New Businesses	-	\$0 - \$100 million

(i) Actual investment allocations may differ from the ranges presented herein. Such investment allocations may be informed by a variety of matters, including then-applicable market conditions.

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

## Q & A

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Contact us anytime: [ir@tetragoninv.com](mailto:ir@tetragoninv.com)

# Q&A: Expected factors affecting NAV progression

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Past performance or experience does not necessarily give a guide for the future ...

## Last 2 Years

- TFG portfolio more concentrated in CLO equity
- TFG CLOs were generally within their reinvestment period
- Credit markets steadily tightening
- Low default environment

## Current Environment

- Many of TFG's CLOs are past their reinvestment period
- Credit spreads?
- Defaults?

## Action

- Actively manage the closure of CLOs that are past their reinvestment period
- Invest in new CLOs
- Continue to diversify TFG's investment portfolio
- Strive to increase TFG's asset management income

# Q&A: Expected factors affecting NAV progression

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Likely expected factors affecting monthly / shorter-term performance of certain segments / asset classes.

- **CLOs nearing maturity**
  - Ultimate realisable value of CLOs nearing maturity will be potentially affected by various factors, including loan market prices at the time of maturity
  - Selling certain positions pre-maturity may potentially avoid more volatile behaviour
  - Calling deals remains an option under ongoing review
- **Other Equity, Credit and Convertibles and Distressed assets potentially more volatile**
  - Some of these may be more concentrated positions
  - Potential higher volatility at a position level
    - Example: Q1 net income +\$23 million (see slide 16); April circa -\$14 million
- **Hedge Funds may experience monthly volatility**
  - Example: Last 12 months volatility of Polygon European Equity Opportunity Master Fund is 5.17  
Last 12 months volatility of Polygon Convertible Opportunity Master Fund is 2.77%
- **Real estate – private equity return profile**
  - Profits and losses are recognized as buildings are either sold or when revalued (relatively infrequently)
    - Example: April circa +\$5 million (sale of Japanese real estate investment)
- **TFG Asset Management**
  - GreenOak joint venture interest is held as an investment and is likely to be revalued only periodically

# Endnotes

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Certain definitions:

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

- Net Economic Income (\$47.2 million): adds back to the U.S. GAAP net income (\$39.7 million) the imputed Q1 2014 share based employee compensation (\$5.8 million), which is generated on an ongoing basis resulting from the Polygon transaction and also includes unrealized Polygon performance fees(20) (\$1.8 million).
- Return on Equity (2.6%): Net Economic Income (\$47.2 million) divided by Net Assets at the start of the year (\$1,803.2 million).
- Pro Forma Fully Diluted Shares (106.0 million): adjusts the U.S. GAAP shares outstanding (94.1 million) for the impact of escrow shares used as consideration in the Polygon transaction and associated stock dividends (11.4 million) and for the potential impact of options issued to TFG's investment manager at the time of TFG's IPO (0.4 million).
- Adjusted EPS (\$0.48): calculated as Net Economic Income (\$47.2 million) divided by weighted- average U.S. GAAP shares outstanding (97.8 million).
- Pro Forma Fully Diluted NAV per Share (\$16.83): calculated as Net Assets (\$1,783.6 million) divided by Pro Forma Fully Diluted shares (106.0 million).
- 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:
  - The Escrow Shares, which have been used as consideration for the acquisition of Polygon and applicable stock dividends relating thereto, and which are held in escrow and are expected to be released and incorporated into the U.S. GAAP NAV per Share over the next four years.
  - 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.

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