

# Tetragon Financial Group Limited (“TFG”)

29 October, 2012

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## TETRAGON



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# TFG Acquires Polygon\* for 11.7 million shares\*\*

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- This is a major step towards implementing TFG's asset management growth strategy
- Polygon is an alternative asset manager
  - Hedge Funds
  - 25% of LCM
  - 13% of GreenOak
- All share consideration
- Also approved a \$150 million share buyback
- TFG expects that both the acquisition and the share repurchase will be accretive to NAV per share

\*Polygon Management Ltd. and Polygon Topco Ltd. ("Polygon")

\*\*11,685,940 shares

# Transformational Deal for TFG Shareholders

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- The acquisition will strengthen TFG's capital and asset management platform
- We believe that TFG can to become a world-class financial services company with capital, investment expertise and infrastructure
- TFG expects to invest in the acquired and potential new products on preferred terms, reducing fees paid to third-party managers and potentially increasing its ROA
- TFG will seek to **grow** its management and performance fee income from third-party investors
- Polygon brings to TFG significant additional investment expertise and provide a **platform and team for further diversification** and growth
- Ownership of LCM increases to 100% providing substantial potential synergy benefits and operational savings
- Ownership of GreenOak increases to 23% providing GreenOak with a single external investor with the resources to support strong growth
- TFG acquires infrastructure platform capable of supporting multiple alternative asset managers, with a history of handling a wide range of securities across multiple geographies
  
- TFM (Tetragon Financial Management LP) will continue to act as the investment manager of TFG under the terms of its investment management agreement

# Our Industry

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- Asset management in niche areas can grow faster with capital backing
- Duration of capital and investment horizon has shortened
- Regulation is forcing proprietary trading activities out of banks
- Institutional capital seeks genuine alpha and low fees
- Regulation is becoming more complex and more costly
- Infrastructure and business risk are more relevant to investors

# A Changing Backdrop

## Pre 2008

### Investment Banks

- Public companies
- Advisory
- Deposit Taking
- Customer Facilitation
- Proprietary Trading

### Hedge Funds and Private Equity

- Private
- Small
- Product Mix: Niche
- Capital Requirements: Light



## Financial Crisis

## Regulatory Changes

- Volcker Rule
- Vickers Report
- Liikanen Report



## Post 2008

### Investment Banks

- Public Companies
- Advisory
- Deposit Taking
- Customer Facilitation

### Alternative Asset Management

- Public & Private
- Large
- Product Mix: Multi-product
- Capital Requirements: Intensive
- Proprietary trading activities

# Our Industry

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## Capital

## Investment Expertise

## Infrastructure

# Evolution of TFG

## TFG

Investment Portfolio

Asset Management

LCM 

GreenOak 

+

## Polygon

Asset Management

LCM 

GreenOak 

Hedge Funds 


Contracted management fees  
from other product

=

## TFG Post-Acquisition

Investment Portfolio / Capital

Asset Management / Investment  
Expertise

LCM 

GreenOak 

Hedge Funds 

Contracted management fees  
from other product

Infrastructure

Infrastructure  
Access to New Businesses



# Polygon Assets and Businesses Being Acquired

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- LCM: 25% of approximately \$4.5 billion AUM loan manager
- GreenOak: 13% of approximately \$1.9 billion AUM real estate asset manager and advisory firm
- Hedge Funds: 100% of approximately \$450 million AUM hedge fund management business
- Approximately \$25 million of contracted management fee income from other product
- Substantial potential synergy benefits and operational savings from consolidating LCM and GreenOak interests
- Infrastructure for investment management

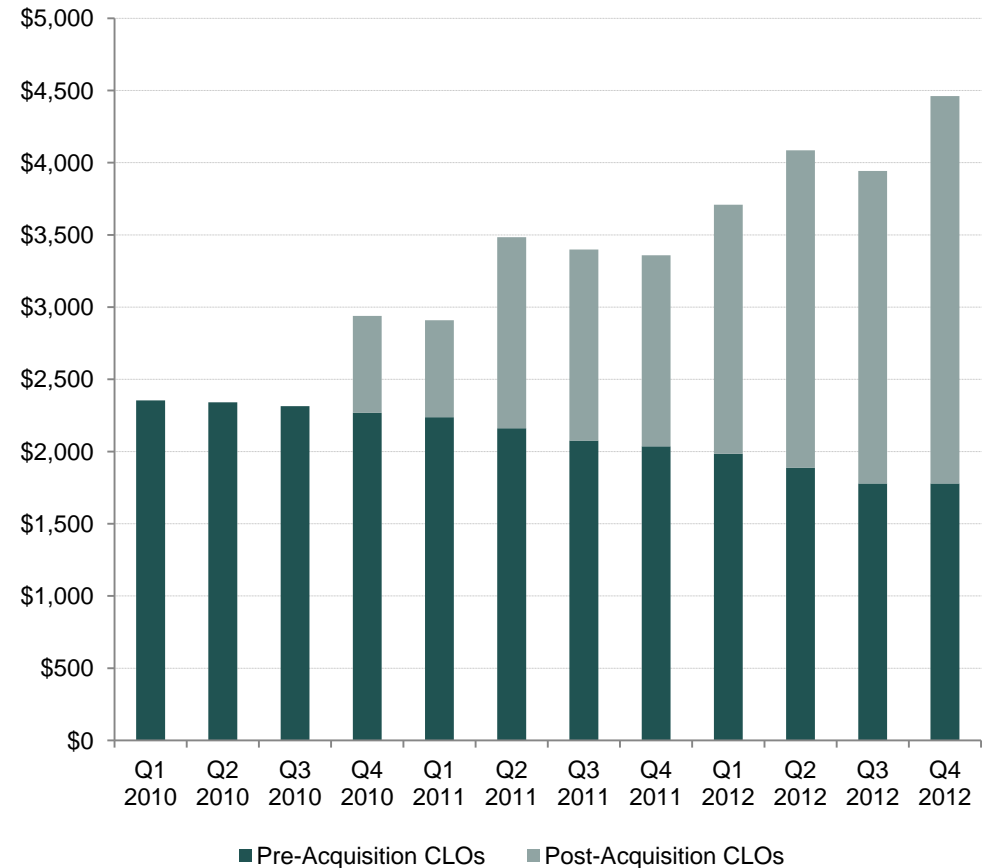
# LCM

- Loan manager established in 2001
- Bought by TFG (75%) and Polygon (25%) in 2010
- Specialist in below investment grade U.S. broadly syndicated leveraged loans
- Excellent 10 year performance
- Experienced team, dating back to early days of U.S. leveraged loan market
- LCM cash flow CLOs\* have maintained their par collateral while generating timely, uninterrupted cash flow streams

Strong growth under joint TFG/Polygon ownership

- 12 CLOs now under management
- 3 new CLOs issued during 2012, raising approximately \$1.4 billion in AUM

LCM Assets Under Management History (\$MM)

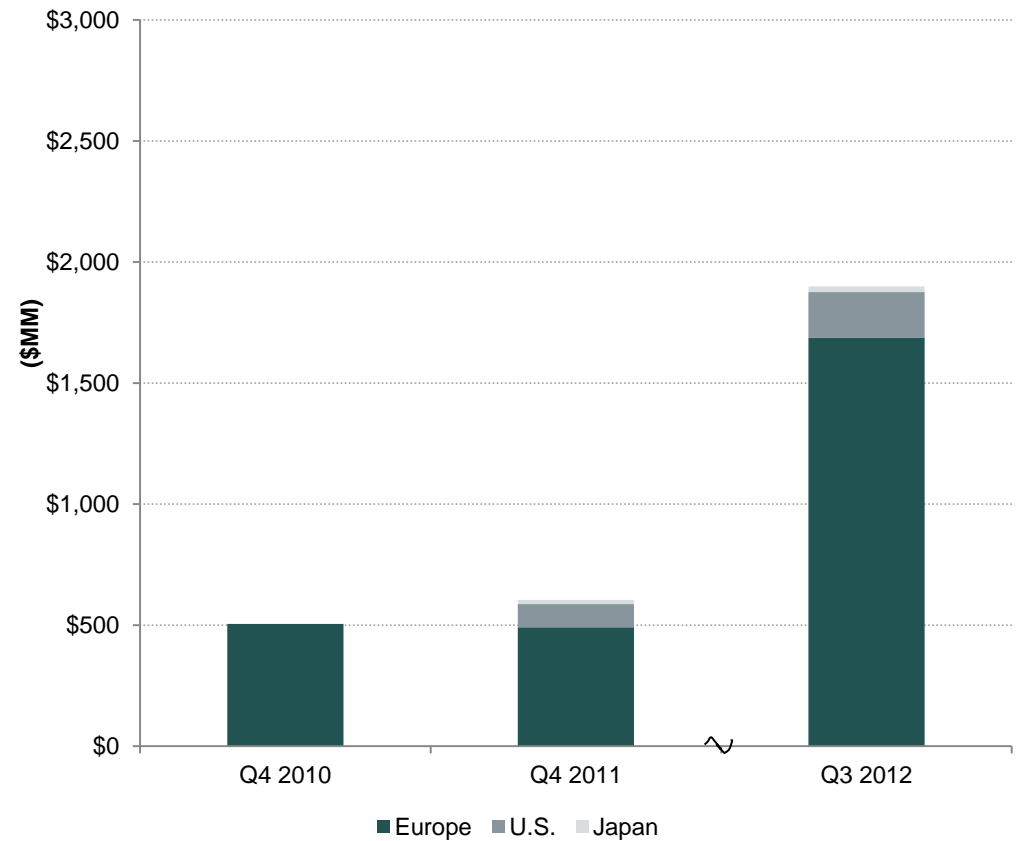


\*LCM cash flow CLOs: LCM I, LCM II, LCM III, LCM IV, LCM V, LCM VI, LCM VIII, LCM IX, LCM X, LCM XI and LCM XII

# GreenOak Real Estate

- GreenOak Real Estate is a real estate focused principal investing and advisory firm – established spring 2010
- Founding partners: John Carrafiell, Sonny Kalsi, Fred Schmidt, Polygon (13%) and TFG (10%)
- Offices in New York, London, Los Angeles, Munich and Tokyo; business activity focused on USA, Western Europe, and Japan
- GreenOak US fund first close Feb 2011; final close with approximately \$260 million
- GreenOak Japan fund first close January 2012 with approximately \$140 million; subsequent closing in process
- GreenOak Europe has managed accounts of approximately \$1.3 billion

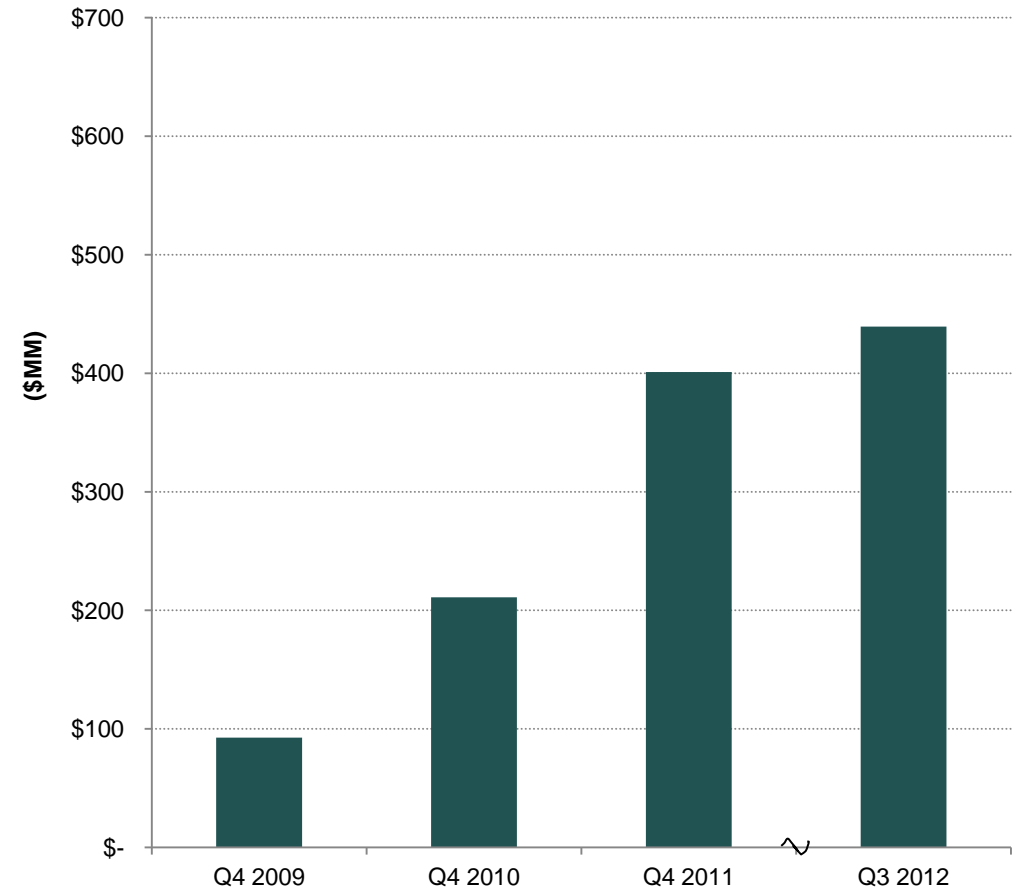
**GreenOak Assets Under Management History (\$MM)**



# Polygon Hedge Fund Products

- Convertible Securities launched May 2009, with Mike Humphries as CIO
- European Event Driven Equities launched July 2009, with Reade Griffith as CIO
- Mining Equities launched June 2012, with Mike Humphries and Peter Bell as joint CIOs

**Polygon Hedge Funds Assets Under Management (\$MM)**

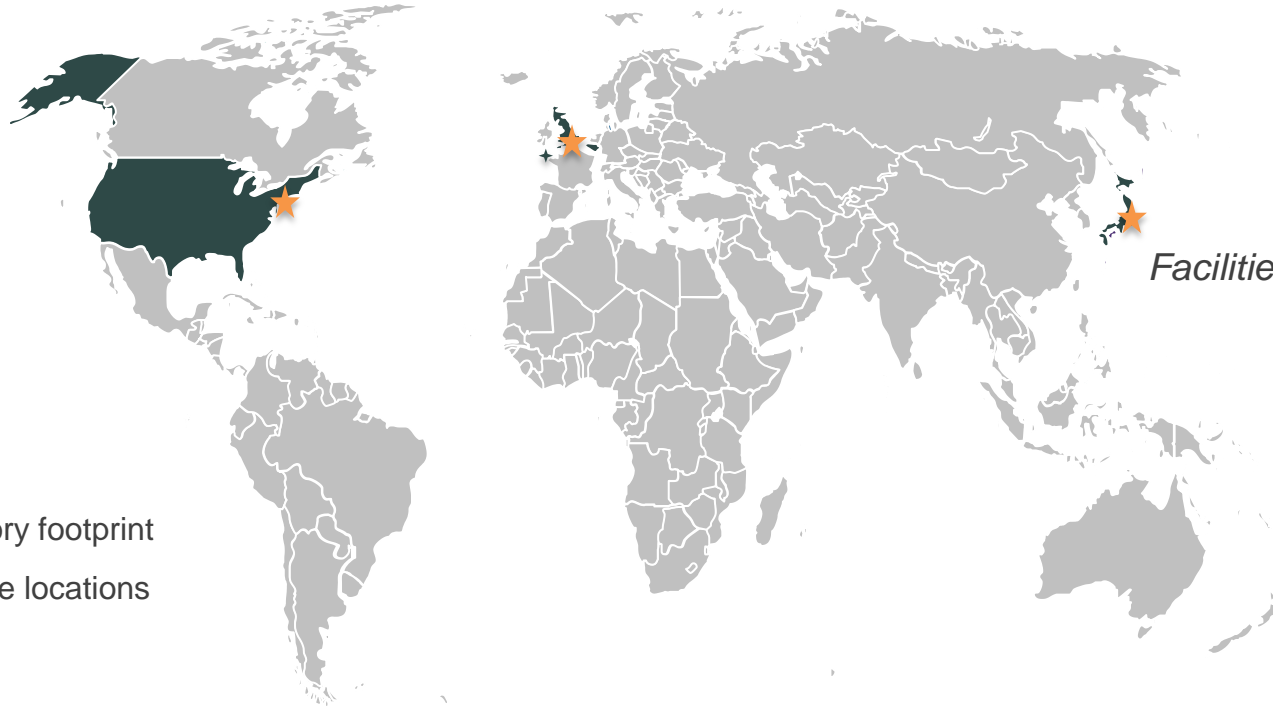


# Infrastructure

- Principal offices: London, New York and Tokyo
- US SEC and FINRA registrations, UK FSA authorisation, Guernsey GSFC supervision, Dutch AFM supervision and Japan FSA registration

*Legal*  
*Compliance*  
*Financial Control*  
*Systems Development*  
*Securities Finance*

■ Regulatory footprint  
★ Key office locations



*Operations*  
*Marketing*  
*Research*  
*Technology*  
*Facilities Management*

# Deal Process 2012

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- In anticipation of the potential for a transaction, the board of directors of TFG constituted a committee composed of the four independent directors with no financial or beneficial interest in Polygon or the transaction (Rupert Dorey, David Jeffrey, Byron Knief and Greville V.B. Ward)
- The Independent Committee engaged Simpson Thacher & Bartlett LLP and Carey Olsen as independent outside counsel
- The Independent Committee then selected and engaged Perella Weinberg Partners UK LLP as independent financial advisor to TFG
- The Independent Committee also engaged PricewaterhouseCoopers LLP to advise TFG as to the accounting and tax treatment of, and conduct due diligence with respect to, the potential transaction
- Each of these advisors acted at the direction of, and reported solely to, the Independent Committee
- Perella Weinberg Partners UK LLP was compensated on a fixed-fee basis without any success fees and delivered fairness and other opinions with respect to the acquisition

# Deal Structure

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- All-share consideration
- The majority of shares vest over five years
- Non-competition / Exclusivity: grow all new Polygon businesses within TFG

# TFG Valuation

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# Evaluating TFG's Asset Management Businesses – Case Study

- The market traditionally does not use NAV as the most relevant means of valuing asset management businesses
- The table demonstrates this issue using TFG's original 75% investment in LCM

LCM (using 100% of LCM's financials)	2011	2012 Estimate	% Change
AUM	3,359	4,500*	34%
Net profit before tax (assuming Q4 same as Q3)	8.2	9.9	21%
Balance sheet value pre-deal	0.1	0.0	-93%

\*AUM as of 1 October is: \$4,461,188,499

# Pro Forma Financials – Estimated and Illustrative

## TFG Estimated Cash Flow (US\$ millions)

	2012	Estimated Ranges for 2013	
	Estimate	Low	High
Opening Cash	212	144	144
Net cash from operating activities <sup>(1)</sup>	363	350	375
<b>Investments</b>			
• CLOs	(113)	(100)	(125)
• Direct Bank Loans	21	(10)	(15)
• Real Estate Vehicles	(19)	(40)	(60)
• Hedge Fund Vehicles	(100)	(10)	(20)
• New Businesses	-	(80)	(100)
Total Cash Used In Investments	(211)	(240)	(320)
<b>Subtotal – net cash flow after investments pre-distributions</b>	<b>152</b>	<b>110</b>	<b>55</b>
Capital Distributions <sup>(2)</sup>	(220)		
<b>Closing Cash</b>	<b>144</b>		
Cash as a % of Q3 2012 AUM	8.9%		

<sup>(1)</sup>2012 Q4 prorated from first three quarters of 2012 and full prorated 2012 figure used for 2013.

<sup>(2)</sup>Assume \$150 million tender offer plus Q3's dividend paid in Q4 and other distributions through Q3.

# Share Buyback

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- Intention for TFG to buy back up to a maximum of \$150 million of existing shares
- Deutsche Bank to act as dealer manager
- A modified Dutch auction structure to be used
- Details to be announced shortly

# Listing

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- Active versus Investment Income
  - The Company has been diversifying its assets from those that produce investment income to those that produce “active income”
  - Polygon – generally represents “active income”
- Active income may help facilitate a possible move of TFG to a US listing over the longer term
- US markets tend to offer better:
  - Research
  - Liquidity
  - Valuations

# Summary

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- Transaction expedites TFG's growth strategy to diversify and strengthen its income streams and to create a broad-based financial services platform
- Transaction accelerates TFG's ability to generate asset management fee income in addition to capital appreciation and cash flow from investments
- TFG to repurchase up to a maximum of \$150 million worth of TFG shares through a modified Dutch auction structure