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Gramercy℠

Distressed Debt Investing in Emerging Markets

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Global Perspective, Local Advantage ℠

The Context for Distressed Debt Investing

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Distressed debt investing has been recognized since the late 1980s as a legitimate investment strategy for institutional investors

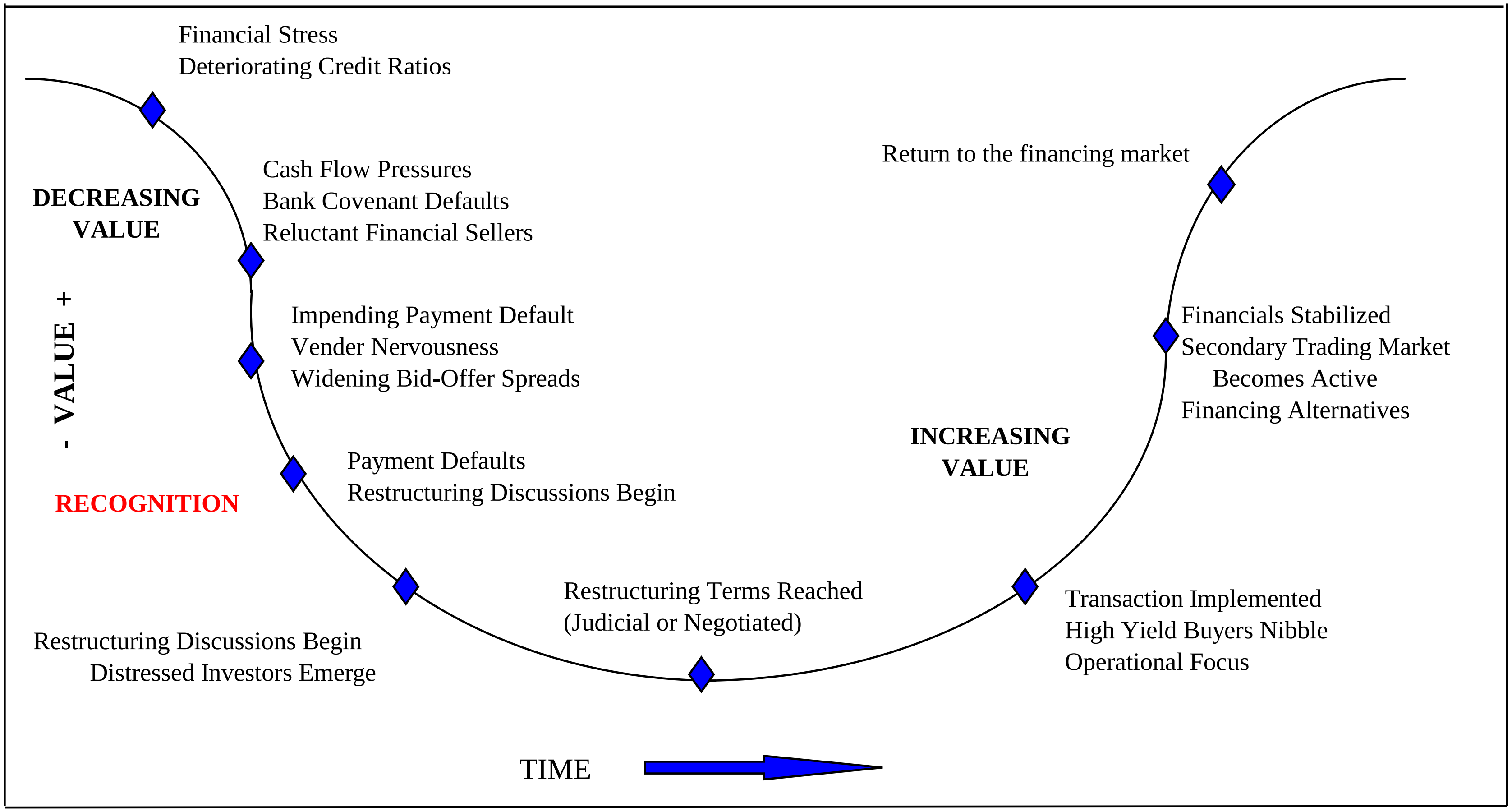
By its nature, distressed investing is an opportunistic strategy, where the potential for outsized returns is extremely cyclical by definition

The opportunities in this distressed cycle are unique and unprecedented.

- First, largely as a result of the LBO boom, years of excess liquidity, and the explosive growth of derivatives, the size of both the leveraged loan and high yield markets is now over $2.5 trillion. With record amounts of debt outstanding, limited liquidity and risk-averse markets, there is an increased likelihood of future defaults.
- Moreover, as opposed to the previous distressed cycle, which was characterized by industry-specific effects (eg technology), and by isolated instances of fraud (eg Enron, WorldCom), the current cycle spans all industries, further widening the potential opportunity set.
- Finally, the difficult market of the past year and a half has reshuffled the key players: former investment banks' once-powerful proprietary trading desks have closed down. In addition, there are fewer providers of credit and substantially less competition to buy quality assets at attractive prices.

For survivors with capital and distressed expertise, the investment opportunities in this cycle are unprecedented.

The Context for Distressed Debt Investing



The Context for Distressed Debt Investing

Nathan Mayer Rothschild (1776 - 1836), financier and patriarch of the legendary House of Rothschild, attributed his success to two things.

- buying when "there was blood in the streets."
- selling "too soon"

So distressed investing isn't all that new!

The Context for Distressed Debt Investing

There are a few factors that help explain why the general opportunities in this distressed cycle are unique.

- During the leveraged buyout (LBO) fever of the past five years, the loan market displaced the high yield market, as higher valuations of companies were debt-financed in the form of loans (particularly second-lien loans). From 2002-2007, new issue LBO loans grew over nine-fold to $295 billion.
- The total US leveraged loan market grew over 120% between 2002 and 2008, totaling $1.6 trillion at December 31, 2008. This compares to a US leveraged loan market size of $734 billion in 2002, and only $150 billion in 1993.
- Debt-to-EBITDA ratios for all new US LBOs increased substantially from 3.9x in 2002 to 6.0x in 2007 (falling to 4.8x in 2008 as credit conditions tightened).
- The US high yield market also grew substantially in the past few years, reaching $928 billion by year-end 2008.
- The sizable derivatives market has further magnified high yield investment opportunities, with the Depository Trust Clearing Corporation (DTCC) estimating the size of the credit products market to be $25.5 trillion, while it estimates the single-name CDS market to be over $14.8 trillion.

The Context for Distressed Debt Investing in Emerging Markets

In the context of the global opportunity, we often get asked:

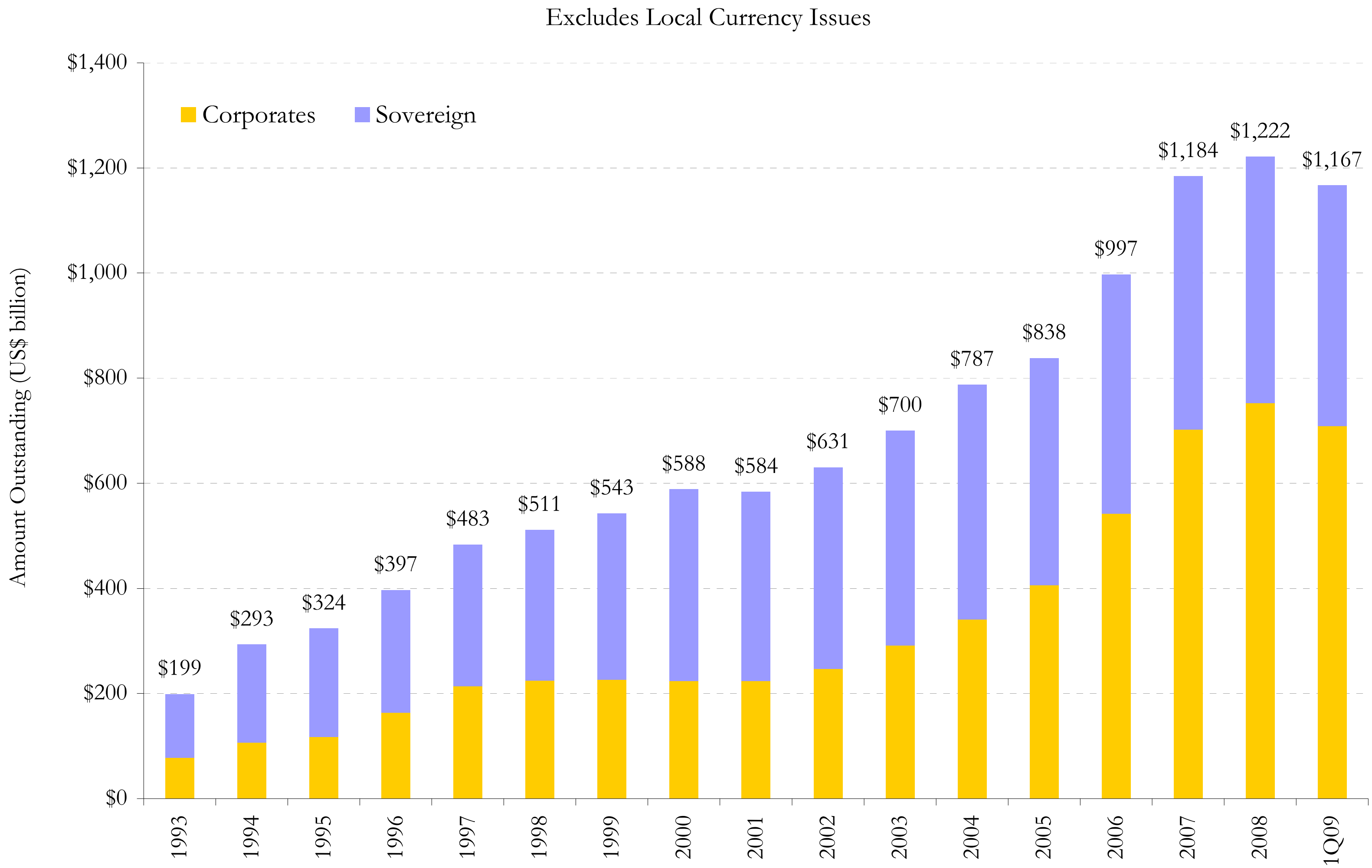
- Isn't distressed investing risky, and distressed investing in emerging markets even riskier?
- Why invest in emerging markets if you can get the same returns in the US?

As to general risk, buying debt securities once the bad news is already known and you are paying 60, or 30, or 10 cent on the dollar seems less risky than buying most high yield securities at 100 cents on the dollar when times are good

And there are three elements that make distressed debt investing in emerging markets, instead of just in the US or Europe, extremely attractive:

1. Breadth of market opportunity
2. Characteristics of the opportunities
3. Inefficiencies of the market

Historical EM Bonds Outstanding



- Over the past three years, the sum of syndicated loans and bonds raised by EM corporates exceeded $1.3 trillion including short term facilities rolled over during this time.
- Reliance on external financing has grown significantly.

Source: BIS and JPMorgan 2009 EM Corporate Outlook.

Emerging Markets Debt Amortization Schedule

We estimate there to be $761.2 billion in emerging markets corporate syndicated loans and bonds amortizing by year end 2011 or roughly 32% of the total outstanding.

GLOBAL EMERGING MARKETS DEBT AMORTIZATIONS: 2nd Half 2009 -2011 (US $ billions)

Region	Debt Amortizations – 2nd Half 2009				Debt Amortizations – 2010				Debt Amortizations – 2011				Grand Total
	Sovereign Bonds	Corporate Bonds	Corporate Loans	2009 Total	Sovereign Bonds	Corporate Bonds	Corporate Loans	2010 Total	Sovereign Bonds	Corporate Bonds	Corporate Loans	2011 Total	
Asia	0.0	11.3	38.2	49.5	0.0	29.0	79.2	108.2	0.0	31.2	114.7	146.0	**303.7**
Emerging Europe	0.8	2.5	10.6	13.8	9.4	3.0	20.4	32.8	8.1	5.3	13.1	26.4	**73.0**
CIS	1.4	10.8	15.7	28.0	2.1	16.1	36.7	54.8	2.9	13.8	23.9	40.6	**123.4**
Middle East / Africa	2.2	7.9	24.2	34.4	2.4	12.9	26.2	41.4	3.4	12.9	49.3	65.5	**141.4**
Latin America	1.36	3.1	17.9	22.2	7.9	9.6	31.5	48.9	8.4	7.2	33.0	48.6	**119.8**
Total	**5.7**	**35.6**	**106.5**	**147.9**	**21.7**	**70.5**	**194.0**	**286.2**	**22.9**	**70.4**	**234.0**	**327.2**	**761.2**

Characteristics of Emerging Markets Distressed Opportunities

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US and European distressed debt opportunities are predominantly with significantly overlevered companies which had undergone LBOs in the liquidity driven frenzy of the 2005-2007 period.

We have always viewed emerging markets as an opportunistic, spillover asset class, a beneficiary of excessive global liquidity and a casualty when global liquidity recedes.

Companies in the emerging markets with access to the capital or syndicated loan markets were those who were globally competitive and maintained above average corporate governance standards.

Despite record levels of issuance in emerging markets over the same period, most of the lending/investing was done for expansion or refinancing, not for wildly aggressive LBOs.

With credit availability limited (or at least prohibitively expensive), many otherwise sound emerging markets companies will either default on their obligations or seek the assistance of private investors to restructure.

We expect most corporate or sovereign defaults in emerging markets to be driven by a lack of ability to refinance in the current market environment, not due to a lack of solvency. By the end of this current cycle, we expect US$300-400 billion of defaults.

Characteristics of Emerging Markets Distressed Opportunities

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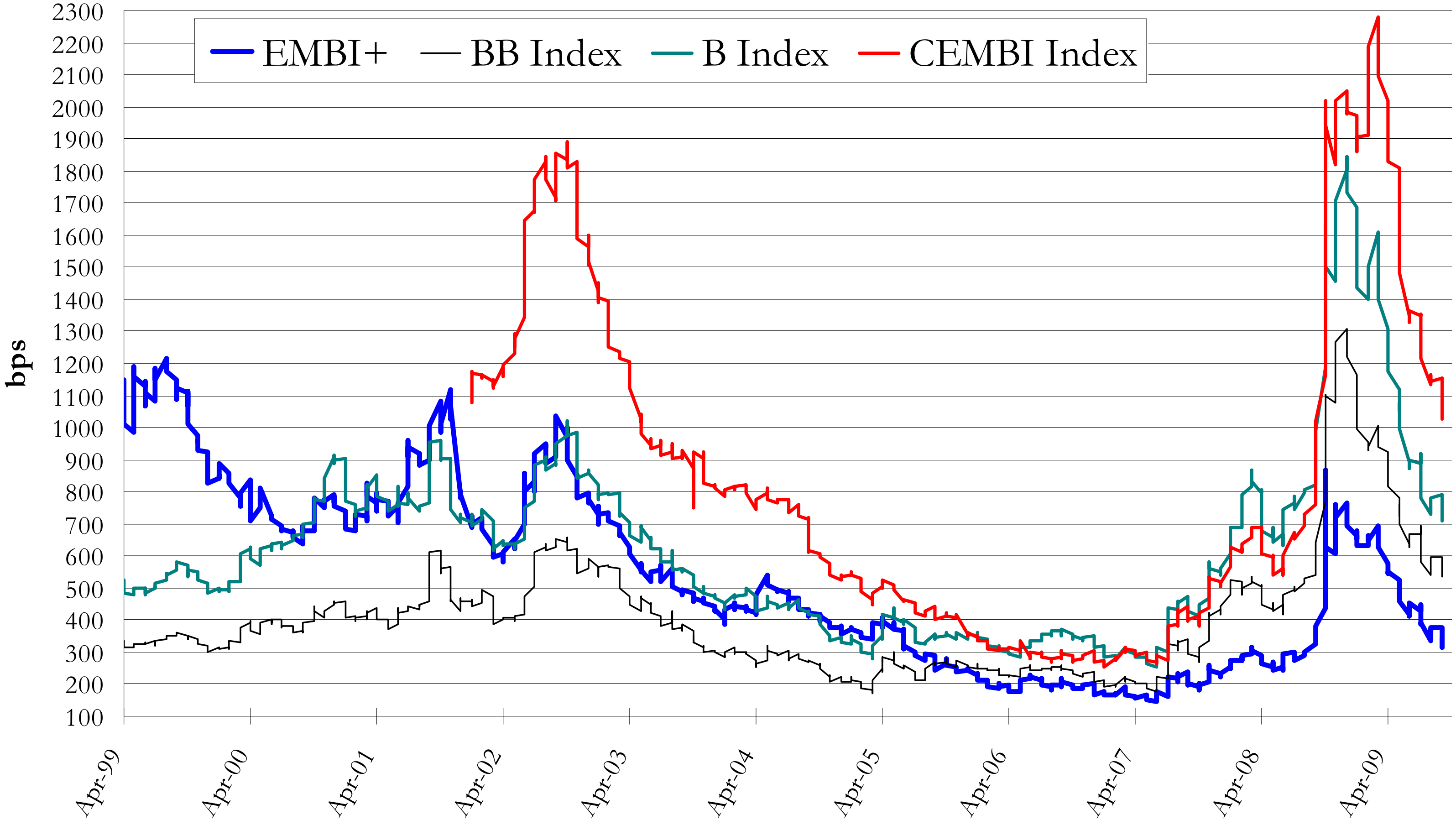
Spreads of Certain Indices to US Treasuries: 4/1/99 to 9/25/09



Note: CEMBI is the JP Morgan Corporate Emerging Markets High Yield Bond Index

Characteristics of Emerging Markets Distressed Opportunities

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Emerging market corporate bonds have rallied throughout the year along with most high yield assets, as the CEMBI high-yield spread to U.S. treasuries tightened to around 1,100 bps, which is the level where bonds traded in October 2008 and almost 1,200 bps tighter than in January 2009.

Emerging market corporate issuance continued its strong pace and reached $68.3 billion year-to-date, up 18% higher from the $57.7 billion issued in the entire 2008, according to Deutsche Bank. However, of the total corporate issuance this year, 74% are from quasi-sovereigns and 86% were rated investment grade. Most private sector corporate issuers are still shut out of the markets.

Fitch recently conducted a study to assess the liquidity profile for corporate issuers in emerging markets and concluded that -- while the liquidity outlook for 2009 is generally comfortable -- the situation is expected to deteriorate in 2010 and 2011. For the coming quarter, Fitch forecasts a sharp decline in corporate free cash flows as companies continue to grapple with the impact of harsh economic conditions. It added that liquidity risks of companies in less-developed markets continue to be led by their reliance on an ingrained culture of "relationship banking", where uncommitted short-dated lines are vulnerable to non-renewal. Emerging market corporates are also exposed to the overall quality of the local banking system (which, if in distress itself, will constrain capacity).

In emerging markets, ING projects the high-yield default rate to peak at 11.4% in January 2010, from 9.2% in August 2009. However, the bank recently said that if defaults continue at similar levels as in the past quarter, then we would see the 12-month trailing high-yield default rate peak in March 2010 at 25.5%.

So far in the credit cycle, Russia is at the lead of defaulting countries and have accounted for 22.5% of all EM defaults. Kazakhstan takes the number two position, accounting for 22.2% of EM defaults, mostly related to external bonds.

Inefficiencies in the Emerging Markets Distressed Market

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Careful consideration of both process risk and valuation analysis

- Controlling shareholders
- Creditors involved in the process
- Technical factors of the markets
- Legal and other negotiating leverage
- Fundamental valuation understanding

Willingness to take an active (control) role

Market-making role in the absence of positioning capacity by Wall Street

In the end, you will get what you negotiate, not what you deserve, so the process requires an understanding and management of the process risk elements.

Inefficiencies in the Emerging Markets Distressed Market

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Market pricing is extremely inefficient because there are very few investors focused on this market in comparison with the developed markets

- Limited number of dedicated players
- Few active (control) players
- Selective information flows
- OTC trading
- Non-judicial restructuring solutions typically

Returns in distressed investing are typically driven by the level at which you get in; this lack of competition is the basis for the alpha generating opportunities we see in the market.

With all of the capital mobilized over the last thee years for distressed investing in the US and Europe, we anticipate actual returns will fall far short due to the competition for product.

Gramercy: Firm Profile

One of the earliest asset management firms to focus on distressed opportunities in emerging markets

- Founded in 1998, registered Investment Advisor with the SEC (since 2000).
- Over $2.4 billion in assets under management with a 10+ year track record.
- Team of 62 professionals headquartered in Greenwich, Connecticut, with offices in Bulgaria, the Baltic Countries, Mexico, Puerto Rico and Singapore.
- Independent employee-owned firm.

Unique global investment perspective derived from extensive experience

- Founders have been active investors in emerging markets for more than 20 years each.
- Global market participants through many credit cycles, developing deep emerging markets and overall credit expertise.
- Embedded local market networks.

We adhere to a model where we minimize the systemic risk embedded in our markets

- Our returns represent alpha generated by active management and are not directional or beta dependent, with historical low correlation to most indices.
- Dynamically hedge out much of the systemic risk of emerging markets with CDS protection.

Investing Across Elements of Distress in Emerging Markets

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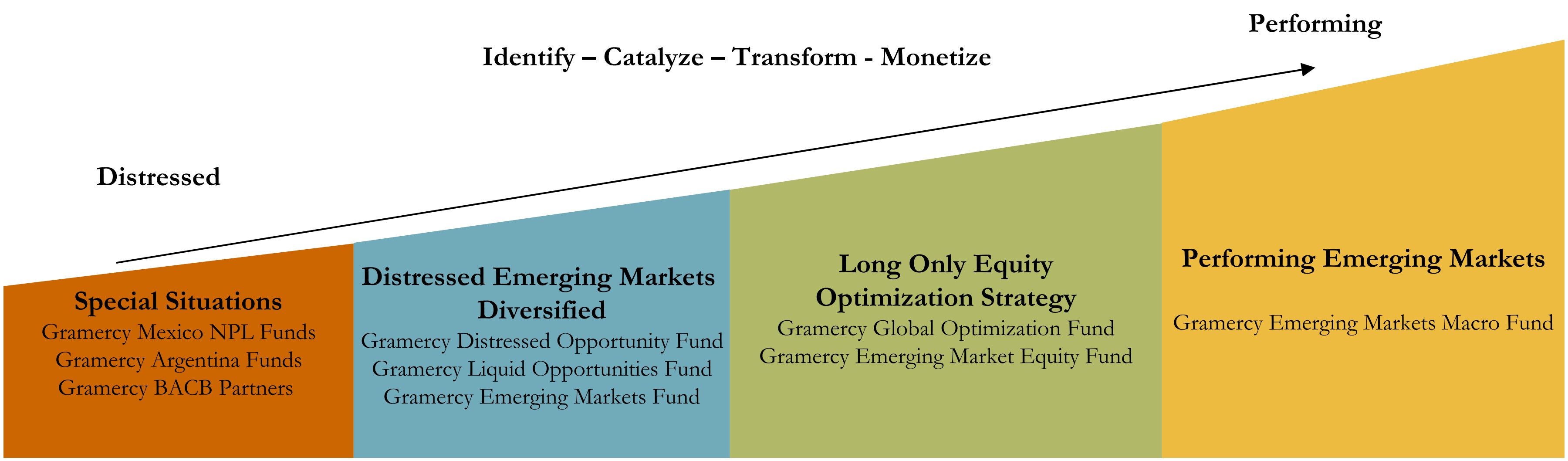
Gramercy's investment professionals have been active investors in distressed emerging markets for over two decades. We are unique in our dedicated, proactive approach to distressed investments in emerging markets.



Special Situations: "Single purpose vehicles", we sometimes come across special situations that either fall outside the mandate of our current offerings or an overweight/concentration is desirable. In such cases we will organize separate pools of capital to exploit these opportunities.

Distressed emerging markets diversified: Proactive, event-driven distressed investing in the emerging markets sector, creating diversified portfolios of securities with differentiated liquidity profiles.

Long Only Equity Optimization Strategy: Investing in closed-end funds trading at a discount to their underlying net asset value (NAV), such discounts are its element of distress, utilizing a rigorous, proprietary quantitative model.

Performing Emerging Markets: Focus on performing emerging markets for quantitative macro opportunities by applying complimentary application of qualitative and quantitative processes to identify investment opportunities.

Gramercy's Organizational Strengths

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Stable Employee Base

- No senior investment team turnover; seasoned portfolio management group (23 years average industry experience) and a secure investment team (6 years average tenure with firm).
- Firm personnel are virtually unchanged in last five years.

Transparency

- Limited competition in space allows us to offer complete transparency to our investors.
- Annual independent audit conducted for all funds (by PricewaterhouseCoopers LLP).
- Independent third party administrator maintains official Fund books and records (International Fund Services).
- Prime broker custodies assets (Citigroup).
- Signatory of Hedge Fund Standard Board, an independent body acting as the guardian or custodian of best practice standards for the hedge fund industry.

hfSB hedge fund standards board SIGNATORY Jul '09

Risk Management

- Rigorous internal monitoring of counterparties has enabled us to avoid exposure to events such as the demise of Bear Stearns and Lehman Brothers.
- We actively hedge our risks to the markets and to CDS counterparties.
- Ongoing due diligence for investor protection, initiated process to receive a SAS-70 Report and we have initiated independent quarterly asset verifications (by PricewaterhouseCoopers LLP).

Gramercy's Principals' Involvement With Selected Corporate Restructurings

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Corporate Restructurings

Year (s)	Country	Issuer	Description
1995-1998	Mexico	Grupo Turistico Escorpion	Financial Advisor to company in developing and implementing a plan to reduce $300 million of debt through debt-for-debt swaps arranged with its lead bank.
1995-1996	Mexico	Grupo Synkro	Established Noteholders Committee for this disparate group of bondholders, representing $50 million of notes.
1997	Mexico	Accel	Financial Advisor to company in identifying certain of its liabilities within FOBAPROA; convinced FOBAPROA to offer $24 million Euronotes in auction; developed bid strategy on behalf of issuer
1998-1999	Mexico	Elite Properties de Mexico	Restructured and reorganized this Mexican real estate holding company which owns, among other properties, the Ritz Carlton Cancún
1998-1999	Argentina	Banco Medefin	Financial Advisor to the Bondholders Committee and one of two members of the Beneficiaries Committee overseeing the liquidation of this failed Argentine bank formerly affiliated with the Socimer Group
1998-1999	Jamaica	Mechala	Financial Advisor to holders of $100 million of bonds in establishing restructuring talks with issuer
1996-1998	Mexico	Fifth Mexican Acceptance Corp.	Financial Advisor to the Noteholders Committee, representing $60 million of securitized notes related to Grupo Sidek
2000-2001	Mexico	Bufete Industrial	Consulted and led creditors committee and attempted to develop financial and operational restructuring of a Mexican construction company with over $180 million of unsecured debt
2000-2002	Indonesia	Paiton Energy	Member of the $180 million bondholder group in the $1.8 billion financial restructuring of this large electricity IPP project in Indonesia
2000-2002	China	CK Pokphand	Member of the creditor group of the world's second largest chicken producer with $917 million of debt
2001-2002	Thailand	TPI Polene	Member of creditor group of the third largest Thai cement company, restructuring $995 million of debt through a Thai bankruptcy proceeding
2001-2003	Mexico	San Luis	Chaired international creditors committee in restructuring $291 million of bonds and $268 million of bank debt of this Mexican auto parts company
2001-2003	India	Essar Steel	Led international creditors committee in restructuring $250 million of floating rate notes of this Indian steel company
2002-2003	Mexico	Grupo Dina	Financial Advisor to holders of $161 million debentures in devising an exchange offer to share in the liquidation of assets of this defunct bus/truck manufacturing company
2002-2003	Mexico	Alestra	Member of creditors committee for this $570 million restructuring
2001-2004	Colombia	Transtel	Chaired creditors committee in restructuring $310 million of bonds and loans

Gramercy's Principals' Involvement With Selected Corporate Restructurings (continued)

Corporate Restructurings - continued			
Year (s)	**Country**	**Issuer**	**Description**
2002-2004	Colombia	Termoemcali	Formed bondholders' committee for the $160 million restructuring of this 234 MW power plant
2002-2005	Mexico	Durango	Chaired international creditors committee in restructuring $698 million of unsecured debt of this Mexican paper company; implemented transaction in the first concurso mercantil proceeding involving international bondholders
2002-2005	Mexico	Satelites Mexicanos	Chaired bondholders committee in this complicated restructuring $525 million of bonds and claims, involving both a concurso mercantil in Mexico and Chapter 11 proceeding in the US
2003-2006	Mexico	Grupo Iusacell Celular	Initiated litigation strategy in connection with the default on $150 million of operating company securities which resulted in market exit at target levels
2005-2006	Bulgaria	Bulgarian Telecom	Purchased 5% of the equity shares with undervalued government obligations (privatization vouchers), which stake was later sold to a strategic investor
2001-2009	Indonesia	Asia Pulp and Paper	Member of Bondholder Steering Group in this $14 billion restructuring until committee was unilaterally disbanded by the company; parallel strategy of litigation and negotiation concluding with sale of secured bonds to private party.
2008-Present	Mexico	Durango	Named chair of ad hoc creditor committee and member of official committee for concurso mercantil and Chapter 15/11 proceedings in connection with the restructuring of $520 million of bonds with this Mexican paper company in its second default
2007 - 2009	South Africa	Afrisam	Negotiated settlement with company on PIK notes.
2009 - Present	Kazakhstan	BTA Bank	Appointed member of Global Steering Committee for the restructuring of the $13 billion of debt of the largest bank in Kazakhstan; also a leading member of the Bondholder's Subcommittee.

Gramercy's Principals' Involvement With Selected Sovereign Restructurings

Sovereign Restructurings		
Year (s)	**Country**	**Description**
1988-1989	Guatemala	Advised on Restructuring/Liability Management
1989-1990	Costa Rica	Advised Republic on its Brady Debt Restructuring, Executed Debt Buy Back for Republic
1991	Costa Rica	Executed trilateral restructuring between Costa Rica/El Salvador/Guatemala
1989-1991	Chile	Advised/executed several Chapter 19 Debt Equity Swaps
1990-1991	Peru	Advised Fujimori administration on debt restructurings
1990-1991	Panama	Advised G. Ford (MOF) on debt restructurings
1991-1993	Bulgaria	Invested proprietary capital and client capital in Bulgaria's Brady Restructuring
1993-1994	Poland	Invested proprietary capital and client capital in Poland's Brady Restructuring
1993-1995	Ecuador	Invested proprietary capital and client capital in Ecuador's Brady Restructuring
1995-1996	Peru	Invested proprietary capital and client capital in Peru's Brady Restructuring
1995-1996	Panama	Invested proprietary capital and client capital in Panama's Brady Restructuring
1993-1995	Russia	Invested proprietary capital and client capital in Russia's Baker Roll-over
1996-1997	Peru	Executed a restructuring/securitization of Peru's Paris Club Obligations with Italy
1998	Russia	Founded and led Russia London Club Portfolio Managers Group
2000	Russia	Led completion of Russia's London Club Restructuring (Brady Deal)
2000	Ecuador	Founded and led Ecuador Creditors Advisory Group
2001	Russia	Invested in and proactively participated in restructuring for Yamal (Regional debt)
2001	Ecuador	Completed debt restructuring for Ecuador
2002-2003	Nicaragua	Led restructuring of Indemnification Bond Restructuring
2003-2004	Uruguay	Invested in Uruguay's 2nd Brady Restructuring
2003-2004	Bulgaria	Advised MOF on its options vis a vis Iraqi bi-lateral claims
2003-2005	Argentina	Steering Committee and Financial Restructuring Chair of ABC and GCAB
2007-Present	Argentina	Spearheading effort to resolve Argentina's $20.0 bn default

Background of Robert L. Rauch

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Robert L. Rauch, 51, is a Partner and Director of Research of Gramercy Advisors LLC where he oversees the research and the corporate restructuring activities of Gramercy and chairs the Investment Committee. He has been, or is currently involved as, a leading creditor or advisor in the restructuring of numerous companies in Asia and Latin America including Accel, Alestra, Asia Pulp and Paper, BTA Bank Kazakhstan, Dina, Durango, Essar Steel, Iusacell, Mechala, Medefin, San Luis, Satmex, SIDEK, Synkro, and Transtel. He also manages funds invested in non-performing loan portfolios in Mexico and oversees Gramercy's 425 person servicing platform.

Prior to joining Gramercy at the end of 2000, Mr. Rauch worked as a consultant to hedge funds managed by Van Eck Global and Farallon Capital Management, specializing in the analysis of emerging markets special situations. From 1994 to 1999, Mr. Rauch was President of The Weston Group, where he was responsible for overseeing the firm's securities research and corporate debt restructuring advisory business in Latin America. In the early 1990s, Mr. Rauch worked as a Vice President with Lehman Brothers and CS First Boston in their emerging markets fixed income trading groups. In the second half of the 1980s, he was a Vice President and trader with First Interstate Bank's loan syndications group, structuring and syndicating loan facilities to highly-leveraged American and Asian corporations. In 1980, he began his career with Swiss Bank Corporation in several credit and corporate finance roles.

Mr Rauch received a BA in Political Economy at Williams College, and a MM in Finance and International Business at Northwestern University – Kellogg Graduate School of Management. He is a member of the American Bankruptcy Institute and is a Registered Representative of FINRA (series 7, 24, 63).

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