

November 29, 2010

Argentina:**Still in the Early Stages of a Positive Economic Transformation**

The sovereign debt of Argentina experienced a significant increase in value during 2010, resulting in strong performance for holders of the debt and of *Gramercy Argentina Opportunity Fund*. We believe the outlook for the debt in 2011 is quite favorable and we continue to view the opportunity as a top sovereign investment opportunity. A clear improvement in fundamentals, cheap valuation and market mis-pricing, along with the ability to purchase a robust and efficient hedge strategy give Argentina a unique advantage in terms of the significant potential upside and limited downside risk over the next twelve months. We see the anticipation and culmination of the 2011 elections next October as a catalyst to drive the yield on Argentina's debt to more normal and therefore considerably tighter levels resulting in continued out-performance for investors.

Argentina is starting to look and behave more like a G20 member country

With over \$4 billion of new issuance from Argentine corporates and regional provincial governments since the completion of the 2010 debt exchange, Argentina has achieved its primary objective to regain access to the international capital markets. However, under its disciplined financial strategy, Argentina is waiting for bond yields to tighten further before it taps the market with an inaugural sovereign international debt issue.

Argentina is also making progress towards fully normalizing relations with its international official creditors through a Paris Club agreement, which appears on target for completion in 2011.

Argentina's strategy is to rejoin the international financial community in good standing with all creditors and major institutions. Argentina has taken steps to stabilize its relations with the IMF in an effort to open and build a normal policy dialogue. Recently, Economy Minister Amado Boudou announced that Argentina has requested technical assistance from the IMF to help the government improve its statistical collection and analysis systems to produce more accurate and reliable inflation statistics.

Political moderation is the dominant trend in Argentine politics

The left-wing ideology of the politically more extreme wing of the incumbent Peronist Party has folded and is rapidly being abandoned since the death of its leader, Nestor Kirchner, on October 27, 2010.

Nestor Kirchner's widow, the current President Cristina Fernandez Kirchner (CFK), has consolidated power over a more united Peronist Party with the continuation of a moderate agenda based on the increasingly market friendly policies in the post-Nestor Kirchner era. The government's economic strategy in the post-Kirchner era has an unambiguous positive and conciliatory tone towards the business community. It seeks to make the business environment in Argentina more attractive for investors. The recently announced initiative with the IMF to improve the standards of Argentina's statistical agency is part of the government's efforts to create a better business environment.

Next year's elections will signal Argentina's break with the past

Argentina will hold elections in October 2011 which, in practical terms, represent a referendum on the acceptance of the political shift of the country towards a more business friendly policy environment.

The 2011 elections are likely to be a landmark event signaling a major turning point for Argentina towards more moderate market-friendly policies. The policies that represent a break with the past are already being undertaken by the CFK administration and will become the core official agenda of the government that will be elected next year.

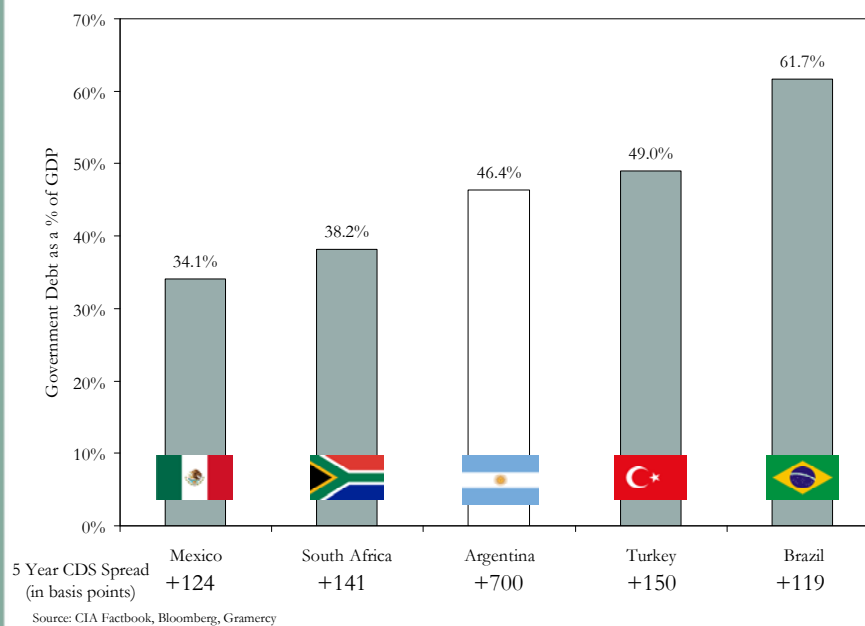
Over the next 6 to 12 months, it will become increasingly difficult for investors and the markets to deny or downplay the profound positive transformation that is taking place in Argentina.

Argentina's economy compares very favorably to those of its peers

Argentina's key economic ratios and its sovereign creditworthiness indicators show considerable strength and sustainability, and also compare favorably with those of higher-rated sovereign emerging market peers.

Argentina's government debt to GDP stands at approximately 46% in 2010 and the cost to insure their debt (measured by CDS spread) is approximately 700 basis points above that of U.S. Treasuries. When compared to other EM Sovereigns, we believe there is a flaw in the market's assessment of Argentina. (Please see Exhibit 1 below)

Exhibit 1: Comparison of Argentina to EM Sovereigns



Similarly, primary fiscal surplus figures, government total borrowing requirements, foreign exchange reserves and Argentina's current account surplus position compare well and often outperform those of its peers. This contrast between Argentina's political, economic and public finance fundamentals and the market valuation for its debt, means significantly higher yields for Argentina debt relative to that of other emerging market

countries, and supports our view that Argentina is still mis-priced in the market. Consequently, there is an opportunity for investors to profit from the convergence of Argentine spreads towards levels more consistent with its fundamentals. This convergence is likely to be driven by policy signals and events during 2011 culminating with the October election, which should substantiate the complete transformation of Argentina into a normal double-B credit.

Argentina is the world's third largest producer of soybeans with a 2010 acreage estimated at 18.7 million hectares and a 2010 total production volume estimated at 50.8 million tons, worth in excess of \$25 billion. The unfolding trends in global demand for food, and for the soft commodities of which Argentina is a major producer, are supportive of our positive outlook for the Argentine economy.

Simple reforms likely to produce big economic improvements

Since the onset of Argentina's financial crisis in 2001, the economy has been to some degree in a straightjacket of heavy-handed interventionist government policies intended to manage the crisis.

As the impact of the decade-old crisis fades and is replaced by growth and prosperity driven by higher commodity prices, a return of foreign investment capital and a better business environment, the policy landscape is ripe for the government to start dismantling the more restrictive policies of the past decade. This opportunity to implement simple reforms (i.e. the low hanging fruit), on the policy sphere promises to reap outsized benefits for the economy in terms of productivity, efficiency and stimulating investment. This positive reform agenda is likely to take place at a time in which some major peer countries, such as Brazil could start to drift in the opposite direction.

High yields and tightening potential offer considerable upside

The high yield at which Argentina's debt trades more than fully compensates investors for the intrinsic risks of having exposure to its sovereign debt in this phase of rapid and positive transformation.

We believe the significant potential for spread tightening as Argentine debt converges towards those of its peers in terms of market valuation offers one of the most compelling investment opportunities in the sovereign credit space for 2011.

Further, there are still large institutional emerging market investors with practically zero exposure to Argentina and it seems to be only a matter of time before they reach a point where they are no longer able to ignore Argentina's transformation and fundamental improvements.

Hedging Eurozone and Global systemic risks in not expensive

The main risk when investing in Argentina in the current financial market environment comes from potential outside events such as turbulence in the Eurozone, geopolitical risks in Asia and potential global imbalances spilling over to the international financial sector and the global economy. Under these scenarios risk spreads could widen significantly throughout the markets which Argentina could not escape. However, in the current low-rate environment these risks can be hedged fairly inexpensively. A well structured and robust hedge position can effectively protect a portfolio of Argentine debt from the potential downside of most contingent global distressed scenarios over the next twelve months.

Based on the availability of the instruments at a low enough cost to build an efficient hedge for our Argentina portfolio we believe that our investment thesis for Argentina is robust and compelling. (See Exhibit 2 below)

Exhibit 2: Projected GAOF Performance (to Nov 24, 2011)

	Projected - EMBI widens by 1000 bps	Projected - EMBI widens by 500 bps	Flat Spreads	2011 Projected Tights
Long Argentine Sovereign Debt	(73.09)	(45.75)	32.02	55.62
CDS Hedge	83.69	46.43	(4.12)	(12.39)
TOTAL GAOF PERFORMANCE	10.59%	0.68%	27.89%	43.23%

Base case for fully hedged portfolio is in double-digits range

Expected return projections under a range of normal and of considerably more distressed external scenarios show positive returns in both base case benign scenarios and in the worst-case scenarios for 2011.

The performance of the Gramercy Argentina Opportunity Fund (GAOF) in 2011 is projected at 43.2% after deducting the cost of its corresponding CDS hedge, under a benign scenario that sees EMBI spreads falling to their 2010 tight and Argentina moving along a gradual, normal spread convergence path.

In our base case scenario which assumes flat spreads for the EMBI and a gradual, partial convergence path for Argentine spreads, the projected return is 27.9% net of the cost of the CDS hedge.

Under our first distressed scenario, with EMBI spreads blowing out 500 bps, the projected performance of the Argentina portfolio is positive 0.7% due to the meaningful positive performance of its associated CDS hedge.

In a worst case global distress scenario where EMBI spreads widen by 1000 bps the performance of the CDS hedge results in a total projected return for GAOF of positive 10.6%.

Argentina hedged investment thesis has considerable merit

The intersection of clearly improving fundamentals, inexpensive valuations and market mispricing, and a robust and efficient hedge strategy combine to give Argentina a unique advantage in terms of large potential upside and limited downside risk over the next twelve months. We see the culmination of the 2011 elections acting as a catalyst event to drive and consolidate Argentina's debt yields to more normal and therefore considerably tighter levels. Gramercy Argentina Opportunity Fund is an efficient and effective vehicle for investors to capitalize on this opportunity.

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