GUTZWILLER
TWO

Frequently Asked Questions (FAQ)

December 31, 2006

Gutzwiller TWO

Multi Adviser Hedge Fund under Swiss Law with special Risk

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1) Who does own Gutzwiller Fonds Management AG:

Gutzwiller Fonds Management AG is owned by E. Gutzwiller & Cie, Banquiers (100%).

2) Describe your strategy and its principles:

Our goal is to construct a portfolio of event-driven funds which we feel have the potential to deliver consistent return over a long period of time. We are in fact trying to collect what we perceive as great talents and/or great organisations in the event-driven field.
Selection is an elimination process which includes in the following order:
- review of Offshore Event Driven Funds Universe to find funds with adequate profile and performance (US Offshore Funds Directory, Hedge Funds News, Newspapers, Fund of funds)
- informal research through trusted industry insiders on history of the fund, background of the principals (career path, reputation, history of business dealings)
- review of written materials: marketing materials, explanatory memorandum to check the structure of the offshore construction, the fees involved, liquidity
- selected funds will be interviewed with a focus on : analytical skills, trading discipline ,portfolio allocation, organization structure, ethics and character of people involved
- selected funds will have their historical performance compared with others selected funds to measure historical performance and volatility and how they fit together.

3) What is your advantage, your edge:

Deep knowledge of the Event Driven Universe with 20 years involvement in Merger Arbitrage and a unique network of talented investment managers, some of them known to us for 20 years. We also have a unique expertise in the selection of external money manager through our close cooperation with renown expert of that field.

4) Why do you specialize in event-driven funds:

We understand this technique which is fairly basic and feel it offers decent return with little or no leverage. We like to refer to it as ‘’low tech’’ hedge fund.
We are also the only Swiss registered Fund of funds specializing in that field.

5) What is the characteristics of event-driven investing:

Essentially the price of the securities depends on the realization of a specific event:
takeover (Merger Arbitrage), bankruptcy (Distressed Investing), restructuration of undervalued companies (Special Situation), and is not dependant on the evolution of the stock market. Most of the parameters involve for the event to succeed can be quantified with a systematic research.

6) What about the diversification of your fund:

There are two levels of diversification: the first comes from the style allocation as Merger Arbitrage tends to flourish when the economy is growing and Distressed Investing benefits from a weak economy, both activities tend to be anti- cyclical;
the second diversification occurs within the specific style as Managers tend to invest at various stage of the event and at various level of the capital structure, accordingly the expected return will be higher if the initial investment is made at an early stage (with more uncertainties). The diversification of our portfolio explain why return is so different among our funds managers.

7) How does your asset allocation/portfolio construction work, is it purely bottom-up driven:

Top down as we try to optimize allocation between arbitrage, distressed and special situation in order to fully benefit from the existing investment climate. Further allocation include optimization between:

- Our own event-driven Style classification (pure merger arbitrage, pure distressed securities, merger arbitrage/distressed securities, creative merger arbitrage, special situation).
- Aggressive managers (high octane) and conservative managers (plain vanilla)
- Big organisation and boutique managers

8) What is the number of investment in the portfolio:

11

9) Isn't it too concentrated:

We have strong conviction about our selection. We use our experience as former principal in the Merger Arbitrage area to select with a thorough research the best Fund Managers available in our field of expertise. Excessive diversification result in a dilution of return.

10) What are your criteria to enter into new investments:

What we like:
- known operator with performance history and survival skills in adverse market conditions
- transparent and well thought out investment process
- above average performance as compared to peer group
- no or little leverage
- plain vanilla strategy

And what we don't like:
- concentrated investment
- illiquid portfolio
- one man operation
- little money under management
- opaque communication
- yearly redemption cycle

11) Have you developed a particular process:

We have divided the Event-Driven funds in 5 investment strategies:
- Pure merger Arbitrage
- Pure Distressed Securities
- Merger Arbitrage/Distressed Securities
- Creative merger Arbitrage
- Special Situation (Undervalued with Catalyst, Pro-Active)

We compare funds within a specific investment strategy together. This process enables us to assess objectively the performance of each fund in its peer group. This process is unique as it requires a deep understanding of the investment strategy of each fund.

We are either looking for great organization or great talents. As a rule we tend to look for great organization in Merger Arbitrage, where strict discipline to control risk enhance the returns.
We favor talents in the others strategies which are more creative.

12) How do you judge a Fund Manager:

When we meet a Fund Manager, we have already read all his documentation and most of the material facts are known to us which enable us to focus on the fine print. Of particular interest to us is the personality of the fund's manager and how it blends with his investment style and with his organizational skills. Do our findings contradict or confirm the result of our initial research? In general we like fund's managers with enough experience to transcend the investment technique and see the big picture. We like the Fund Manager to be a good risk allocator with a well defined investment process rather than a skilled analyst with no overview. The selection is easier when the organization is superb on top of everything else.

13) How do you structure your detailed analysis:

The Funds selected in our preliminary research screening are extensively analyzed in a 5 part study: Firm overview, Specificity of the fund, Organisation, Investment Process and Personal observation; which include on site visit of the fund Manager operation.
We focus on the overall quality of the management. Well run organisations do have outstanding operation facility.

14) How do you monitor your investments:

It is structured around 3 axis.
We constantly watch the deal flow in our investment universe in order to evaluate quickly the consequence for our sub-funds if a deal suddenly encounters problems. We would not be able to act on it, but it is useful to understand the environment in which our sub-fund managers evolve to be able to judge objectively their performance.
We read all the written materials sent to us by the managers, which bring a lot of valuable information on the investment activity of our sub-funds. Here again we feel that constant monitoring of sub-funds managers information flow, help us assess if a fund manager stick to his investment strategy and to his core competence.
We monitor carefully performance, and compare them within their peer group (funds with similar investment strategy and discipline). We want to understand the performance.
Phone calls and visits are a complement to the above mentioned research as we want to speak to the managers fully prepared in order to get the most insights from the discussion.

15) Could you give a practical example of how a merger arbitrage fund invest:

Early October 1999 DSP Communications Inc was trading in the very low 20's. On October 14 1999 Intel announced its intention, with DSP management acceptance, to offer each shareholder of DSP the possibility to buy their share for USD 36.- in cash. After the announcement the arbitrageurs were willing to buy DSP in the market at USD 35 ¼ . After deducting the costs of holding DSP for an estimated period of 1 month: USD .15 the net profit on the operation would be USD .60 for an annualized rate of return of 20 % (.60/35.4/30*360). Any delay in the completion of the deal would affect dramatically the annualized rate of return: a 2 weeks delay would bring down the annualized rate of return to 11.7 %..(.52/35.48/45*360)

Before making the investment the arbitrageurs perform a very extensive research in order to make sure that nothing will delay or prevent Intel to acquire DSP Communications Inc for USD 36.- per share. If the deal broke DSP would fall back to USD 20.- and the arbitrageurs would lose approximately USD 15 ¼ per share. Knowing their downside the disciplined arbitrageurs will not set up a position which could cost his fund to lose more than a predetermined percentage of equity.

16) Could you describe the research process involved:

As soon as the deal is announced the arbitrageurs will study very diligently all the public information's available on the deal and on both companies: offer documents, latest filings to the SEC and to others regulatory agencies, financial information's. They will try to assess what kind of regulatory approvals are needed, the likelihood of obtaining them and the timeframe involved. Regulatory approvals are one of the main cause for delay and it is essentials to have a good understanding of the review procedure. If they anticipate some problems in getting the approval, they will hire a lawyer specializing in this particular area in order to double guess the likely outcome.
On a larger frame they will try to understand if the deal make sense on a : business basis (good synergy), financial basis (has the acquirer the financial means to realize the acquisition and is the acquired company transparent and are both companies likely to experience rapidly declining revenue or earnings), legal basis (no legal impediment to the deal), people basis (top people are getting well along).
In order to complement the research they will call on each side of the deal: the investment bankers, lawyers, company's officials, trade representatives and any others sources they deem reliable in order to check their findings. As the deal move along they will keep in touch with those various contacts to measure the progress of the deal and see if the initial timetable will be observed. Any delay can hide a potential problem. The bigger the potential problem the more the spread widen. Generally a sign that a problem could be coming is a widening spread. As soon as the spread is opening all the arbitrageurs are calling their sources to find out what is going on.

17) Could you also give an example of Distressed Securities investing:

Maxwell Communications filed for bankruptcy in December 1991. The liquidation plan was filed in December 1993 and called for assets to be sold and the cash to be distributed to creditors. Generally the Distressed Investor must figure out the value of the assets and find out which class of bonds have a right to them. In this case the administrators overseeing the liquidation have issued reports which included estimates of recovery between USD .38 and USD .40 on the dollar. However they did not mention any value for litigation recoveries which increased by almost USD .20 the recovery potential. The proceeds were paid as the liquidation process followed its course. In the case of Maxwel, creditors received 10 dividends over 9 years for a total of USD .60. The determination of the timing is essential to the annualized rate of return.

18) How do you monitor risk:

We monitor risk at various levels:

Strategy risk
- sub funds allocation (arbitrage, distressed, special situation, pro-active, convertible)
- aggregate leverage of our sub funds

Managers risk
- % of sub-funds with third party control
- % of sub-funds in various category — boutiques vs organisation, special situation vs arbitrage/distressed, high octane managers vs low volatility

Exogenous risk
- % of sub-funds per offshore jurisdiction
- % of sub-funds per offshore administrator
- % of sub- funds per prime brokers

Liquidity risk
- aggregate redemption cycle of sub-funds
- % of sub-funds with lock the 1st year

Return Analysis
- by style: for ex. arbitrage/distressed vs special situation
- by manager type: for ex. boutique vs big organisation
- by category: for ex. high octane manager vs low volatility

19) What is the reason for the high allocation to cash:

Estimated allocation includes cash held by sub-funds. Merger arbitrage has been slow lately and fund managers held substantive amount of cash on one side, and on the other side, Gutzwiller TWO managers have been conservative.

20) What is the future of Event-Driven funds and of Hedge funds in general:

Both offer the opportunity to benefit from investment techniques which in the past were reserved to the financial elite always eager to benefit from price discrepancies. Hedge funds investing is only the disintermediation of the proprietary trading desk of Wall Street. It is a democratic process as more people have access to very refined investment strategy and a capitalistic process as it was initiated by proprietary traders from Wall Street eager to improve their pay package with 1.5 % management fees and 20 % performance fees. The combination of those two forces should guarantee the future of hedge funds as long as price discrepancies subside.

21) What kind of information do you offer to existing investors/intermediaries, in addition to the monthly factsheet(NAV estimates, monthly/quarterly conf calls etc.):

- Monthly fund manager letter
- Portfolio distribution
- Risk analysis

22) Who controls you:

We are a Swiss registered Fund monitored by the Swiss Federal Banking Commission
Our risk management overall principles is based on the separation of function between:
- Gutzwiller fund Management (Accounting & Marketing)
- E. Gutzwiller & Cie, Banquiers (Fund Manager & Custodian)
- Advisory Board (3 members with 2 experienced outsiders: Kenneth Korfmann, Guy Wyser-Pratte)
- Supervisory Board (4 members with 1 experienced outsider: Jean-Patrick Voisin)
- External Auditors reporting to the Swiss Federal Banking Commission

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