KMI EXCLUSIVE NEWSLETTER

21st June 2012

Dear Clients and Investors

With sporting distractions such as European football, Wimbledon next week, USA Golf and the Olympics in August, it's no wonder we are pleased to be distracted from the financial problems currently blighting markets.

We may even take comfort in the recent Greek elections where we are told the Greeks voted to stay in the Euro, thus saving the so called contagion (fallout due to the Greek default), but did they really know that in doing so they voted for more austerity; I doubt it, but they will soon be told!

Meanwhile, on the investment front there are some interesting options. We attach two funds and give details of a few companies that will, we feel, benefit from the Banks having to right their ship and unload a great deal of their debt, this we call distressed opportunities.

Distressed Corporate Debt

You may have seen the recent articles in the press and particularly the Financial Times. The essence of the discussion was that many of our largest institutional banks have debt on their books with major institutions. They have to "sell" or dispose of this debt to enable their audits to comply with recent EU and US requirements regarding capital adequacy ratios.

As you would expect, these banks rely on interest by way of profit. However, the likes of the three companies attached, Apollo, Oaktree and Blackstone, not only rely on interest but also take a holding stake, effectively making them Venture Capitalists. They also purchase this debt from the major banks at a considerable discount. Clearly they do so after much due diligence thus assuring the quality of the debt.

Comment from Oaktree; "We favour large, fundamentally sound companies that are overleveraged," says Bruce Karsh, who serves as portfolio manager, "and we often assume a leadership role in the financial restructuring process."

Initially we at KMI had thought of a "Fund" of companies dealing with restructured corporate debt, not just Venture Capital companies, some of which would be far too small to raise sufficient sums. However, looking at the market and the mention of the three companies (plus others) by the FT who had already raised some $20 billion for the purchase of distressed debt. We felt it much cheaper to buy these companies directly (no fund fees). These companies may be purchased through an offshore wrapper style portfolio which are very quick and easy to sell or hold in a tax efficient way.

The companies are:

Oaktree Capital Group, LLC (OAK) -NYSE

The Blackstone Group LP (BX) –NYSE

Apollo Global Management, LLC (APO) –NYSE

Funds and Structured Products

There are now so many investment funds and products available through many differing sources, that the investor can be forgiven for being rather confused if not bewildered. Many of the structured products give a conditional guarantee of capital which is attractive to many investors in these unsure times. Sadly, the term for such products is often four to five years in many cases which means the cash can be locked up for far too long and sometimes without any return unless certain set market levels are achieved.

With the above in mind I come to the first fund recommendation. The new EFG structured product , exclusive to KMI clients, is for just 18 months, gives a certain 9.5% per annum (so 14.25% over the 18 months or 2.375% per quarter) return. Capital is guaranteed to be returned in addition to the income stated, unless one of the four major world car makers stock price reduces by 40% (ie reduces to 60% of the initial value at outset of the note). In this case an equal amount of capital is lost to the decline in the stock. Given that the Stock prices are good value at present, we feel this is unlikely, although possible. EFG is a substantial Swiss bank based in Zurich and considered sound.

The second fund we recommend here is one we have known for some time and has already given excellent performance. We expect this to continue. The Mansion Student Accommodation Fund, based in the UK invests only in buying directly properties that provide student accommodation; some purpose built, near UK universities. This provides excellent income and of course will achieve capital growth. As can be seen, the fund achieved in excess of 12% last year and can be purchased in three currencies.

As always more information can be had on any of the above items from your normal KMI consultants or from Mike Towning at KMI Prague.
May I wish all our clients very enjoyable summer holidays and of course,

Happy investing

Lee R.J. Green *Cert.PFS*

New site http://corporatebonds.kmiconsultants.com/

Web site www.kmiconsultants.com

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