AC Capital Partners Ltd

11th June 2008

Market Update

Overview

While spreads have tightened significantly from the wides seen in March 2008 credit markets continue to face significant pressures across the board. Economic data points to increasing unemployment and inflation, and commodity prices have shown no sign of abating leading to concerns that corporate earnings may be affected. Both the ECB and Fed have highlighted the inflationary pressures and the potential need to increase interest rates which has weighted heavily on the equity markets. Financials remain particularly weak given the recent noise surrounding Lehman Brothers and Bradford & Bingley, combined with S&P's rating actions. Write-down's since the financial crisis began now approach approx. USD 390 bln, putting further pressure on bank balance sheets and resulting in a continuing need for banks to raise additional capital.

US ABS

The US RMBS market remains particularly weak in comparison to other ABS sectors. This is largely due to concerns driven by higher arrears and foreclosure rates month on month and increasing US housing stock. In addition, mortgage prepayment rates continue to fall, driven by borrowers' inability to refinance as mortgage lenders tighten origination criteria and falling US House prices. We expect to see this trend continue and remain bearish on the sector in general from a mark to market perspective but careful selection by more experienced investors could lead to significant returns.

US Consumer ABS transactions also show signs of weakening as inflation, falling house pricesa nd falling consumer confidence takes its toll.

The effect of falling prepayment rates, increasing foreclosures and falling US house prices has the effect of increasing expected losses and weighted average lives of this sector.

European ABS

European ABS has been impacted significantly from a mark to market perspective but with the exception of UK non conforming RMBS the European ABS market has not experienced the same extent of credit deterioration seen in the US RMBS market. Particular areas of concern are the Spanish and Irish RMBS sector where the economy is seen as overheated and significantly exposed to the stressed construction sector. Expectations of further house price falls and fear of increasing losses weigh heavily on this segment of the ABS market. It should be noted however that with the exception of some recent vintage high LTV transactions Spanish RMBS continue to have an acceptable performance. CMBS is also an area of concern due to falling commercial property prices and concern over the ability of borrowers to refinance commercial mortgages on the same terms. We also remain negative on the European Credit Card ABS sector which we expect will be significantly impacted in an economic downturn.

Market Outlook

We remain very cautious in general and expect volatile markets in the short term with the potential downside risks outweighing the upside potential. While there appears to be some selective interest from real money accounts, traded volumes continue to be thin. We see significant value in some sectors over the long term but expect mark to market volatility to be severe, which any investor in the sector should be prepared for and have the ability to withstand.