INVESTMENT THEME: U.S. HOUSING

July 2012 Update

Prepared by:

M. Cullen Thompson, CFA
President & Chief Investment Officer
cullen.thompson@bienvillecapital.com

Blake Bennett
Analyst
blake.bennett@bienvillecapital.com

Summary

- Incoming data continues to reinforce our view that after 7 years of turmoil, the U.S. Housing market appears to be stabilizing

- Given the magnitude of the real estate bubble, the subsequent decline of housing prices and the resulting destabilization of the global financial system, it is no surprise that investments related to housing remain out of favor and are therefore highly dislocated from current fundamentals

- Bienville believes attractive risk-adjusted returns are available to those with the requisite skills to position for <u>both</u> the stabilization and eventual recovery of the U.S. housing market

- In order to maximize our theme, Bienville is taking a 'debt' and 'equity' approach:

    1. The debt portion of our allocation is focused on Non-Agency Residential Mortgage-Backed Securities (RMBS), particularly the Alt-A and subprime sectors where high loss-adjusted yields can be earned (even when modeling draconian home price assumptions). Strategies employed are relatively liquid, yet offer investors equity-like returns while owning bonds

    2. The equity portion of our allocation will be predominantly focused on raw land, partially-developed land and beachfront property trading at distressed prices along the Gulf Coast of Alabama, Florida and Mississippi. Our particular focus will be on Baldwin County, AL where due to an apparent "liquidity vacuum," prices have reverted to levels last seen in the mid-1990s (down 60-90% from 2006), despite continued economic and population growth. We believe the targeted properties will be highly desirable once the development cycle turns, significantly rewarding liquid and patient investors

- Bienville believes this two-legged approach will result in a powerful combination: net positive carry, plus considerable optionality to a normalization and eventual recovery in the U.S. Housing market

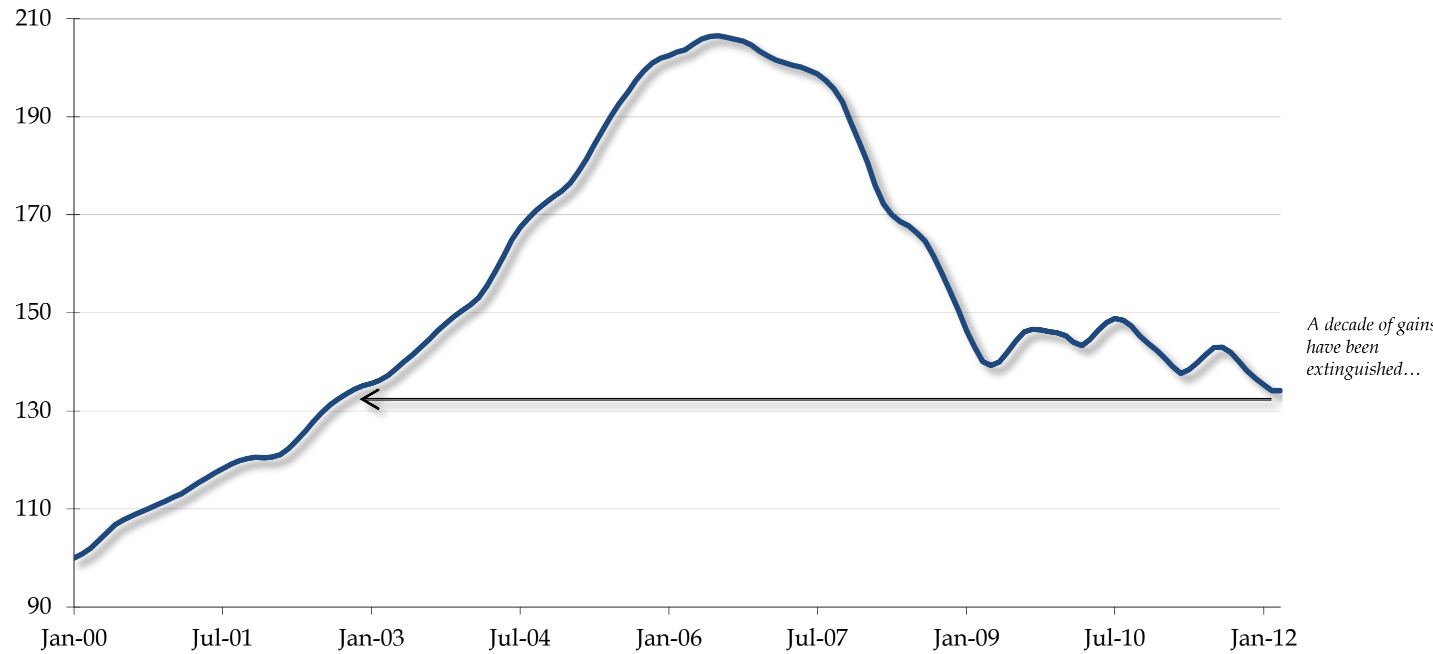
U.S. Housing Update

U.S. HOUSING UPDATE

Nationwide, prices have reverted to 2002 levels, taking out gains over the past decade and arguably extinguishing the excesses that occurred during the bubble…

- Since 1970, there have been 24 major housing busts in 15 OECD countries. The average duration of the decline was 6.25 years with an average cumulative decline in home prices of 31%
- Five housing busts were accompanied by banking crises. When combined with a banking crisis the average decline lasted 7.5 years, resulting in a cumulative decline in home prices of 39%
- The most recent U.S. housing bust has brought home prices down 35% over the past 7 years…

S&P/Case-Shiller Composite Index
(Level, 20 City)

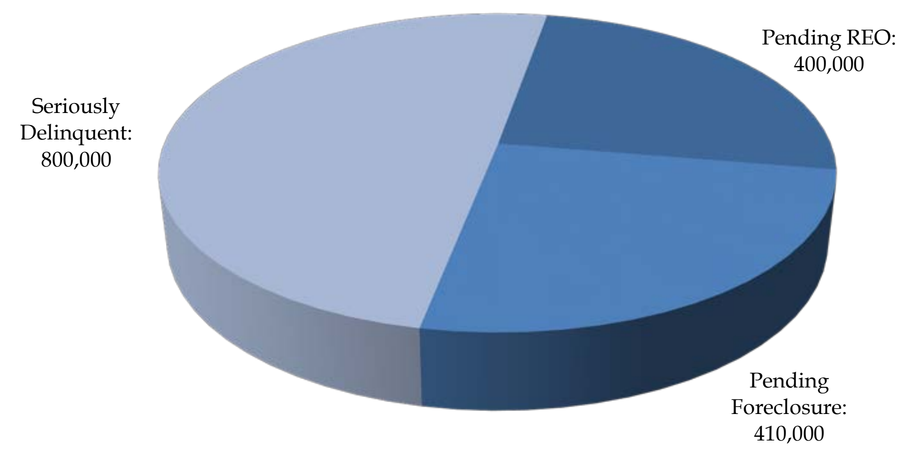


Source: Bloomberg; Hayman Capital

U.S. Housing Update

- Much of the caution surrounding the housing sector today is due to the so-called "shadow inventory"
- Shadow inventory can be broken down into three categories:
    1. Real estate actually owned by banks but not yet listed for sale, currently 400,000 houses;
    2. Real estate in foreclosure, currently 410,000 houses; and
    3. Severely delinquent mortgages (i.e., greater than 90 days), currently 800,000 mortgages
- Therefore, total shadow inventory is approximately 1.61mm homes

"Shadow Inventory"
Estimated U.S. houses yet to enter the market

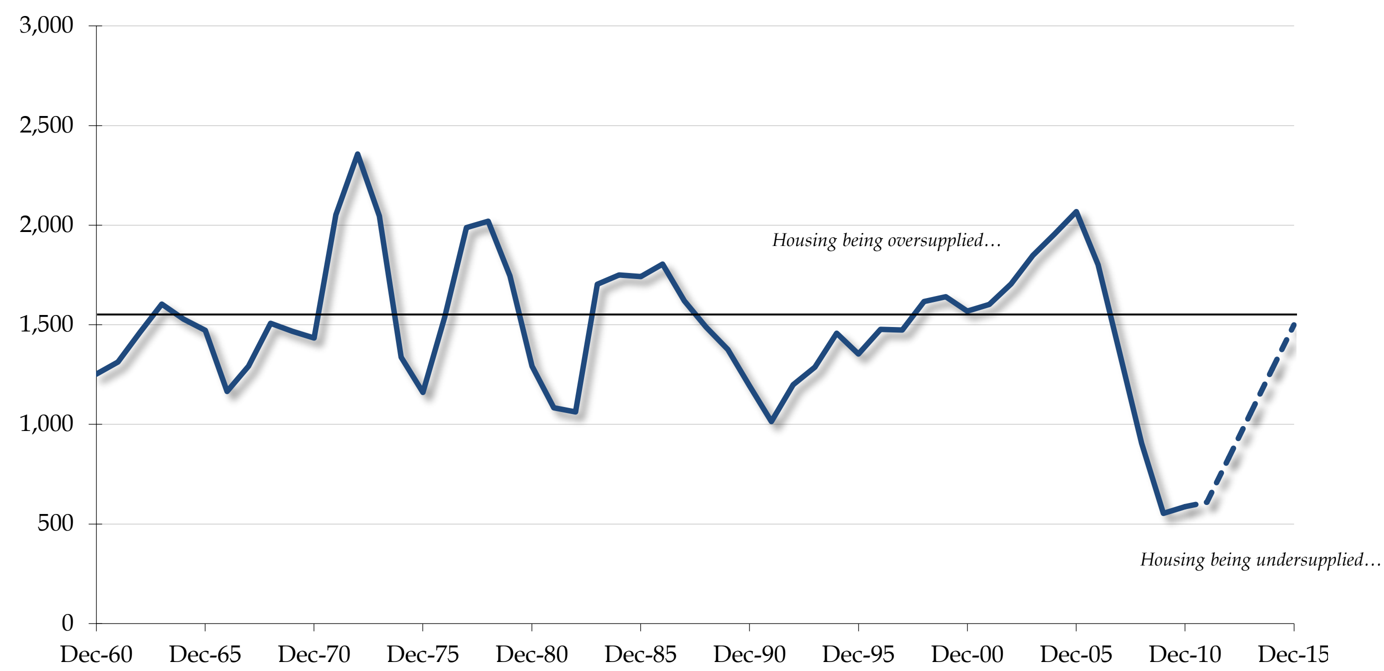


Source: CoreLogic; Catalpa Capital Advisors

U.S. Housing Update

- Based on a long-run average of 1.5mm new housing units built per year, 2.2mm housing units were overbuilt during the bubble years. However, since the crash, historically low housing starts have resulted in a total of 3.5mm units that have been underbuilt. This net shortfall serves as "pent-up demand"
- If it takes 3 years to return to the 1.5mm trend, another 1.1mm units would be undersupplied, resulting in a total of 4.6mm of "shadow demand." The 4.6mm of "shadow demand" minus the 1.61mm units of "shadow inventory" will leave a balance of 3mm units of excess demand in the market

U.S. Housing Starts

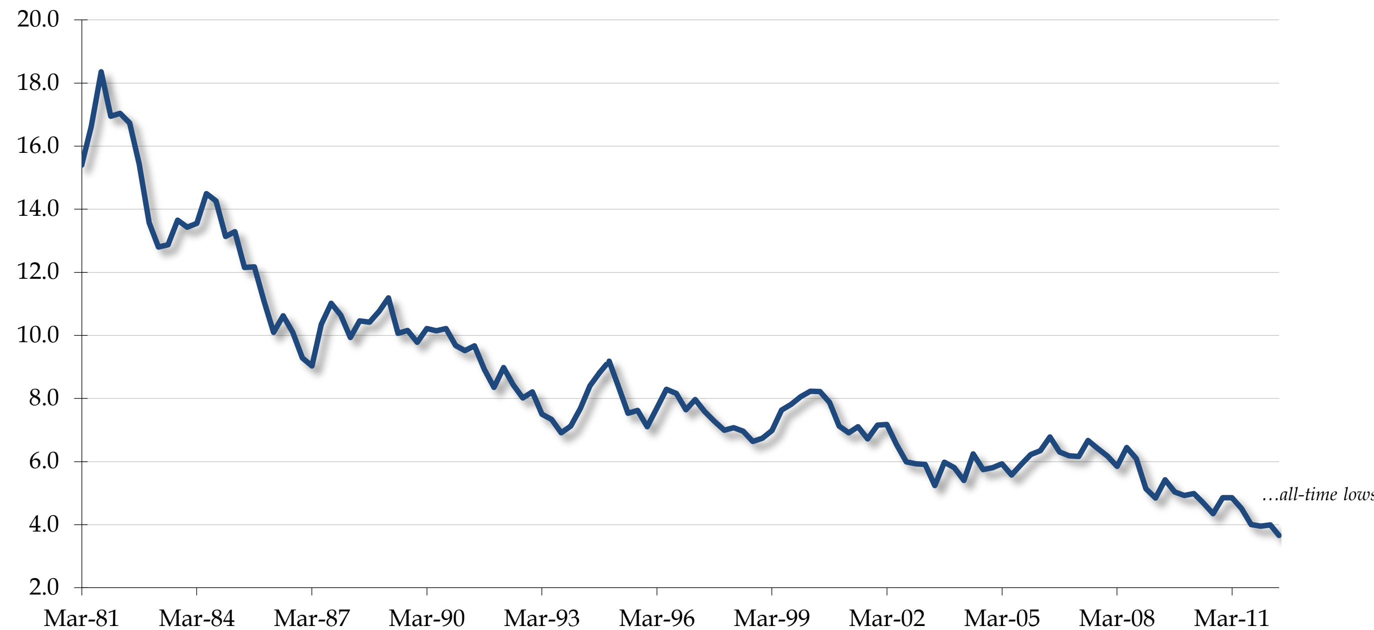


Source: Bloomberg, Catalpa Capital Advisors

U.S. Housing Update

- Mortgage rates are at all-time lows
- The Federal Reserve's current intention is to keep interest rates low until 2015. Additionally, much of its quantitative easing (QE) program has been focused on agency MBS, pushing mortgage rates even lower

Freddie Mac U.S. Mortgage Market Survey
(30-Year Homeowner, 20% Down Payment)

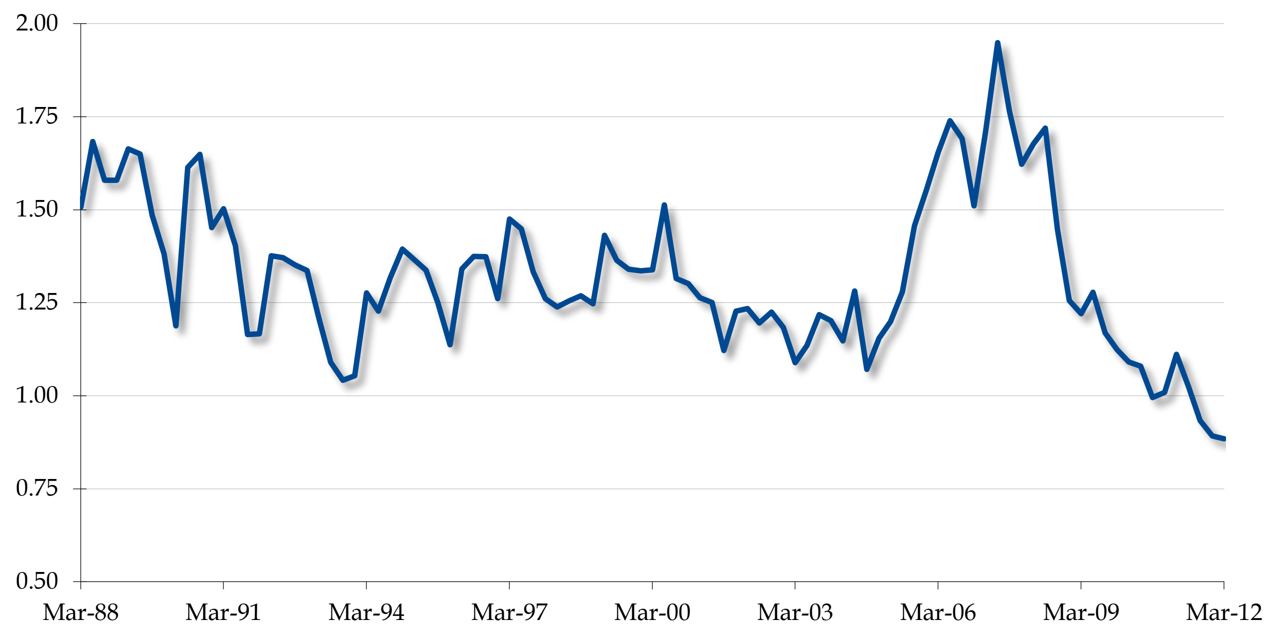


Source: Bloomberg

U.S. Housing Update

- It is now more expensive to rent than to finance the purchase of a home using a mortgage
- Since data has been collected, it has never been more attractive to buy a home versus renting

Ratio of Monthly Mortgage Payment to Median Asking Rent
(Median Asking Sales Price, 30-Year Mortgage, 20% Down Payment)



Source: Bloomberg; US Census Bureau

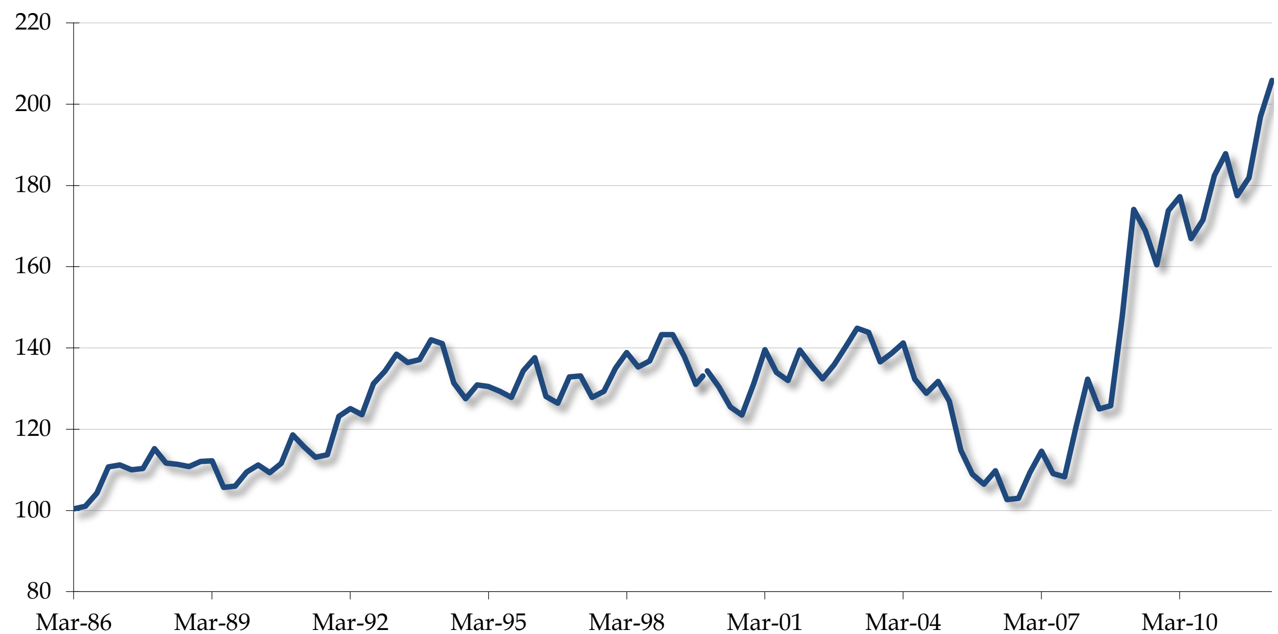
U.S. Housing Update

A value of 100 implies that a family with a median income can qualify for a prevailing-rate mortgage loan on a median priced home, assuming a 20% down payment

The current level of 200 suggests that families can easily afford to buy a home should they be able to obtain a mortgage

- The housing affordability index is at an all-time high
- According to the National Association of Realtors, a typical American household now has twice the income needed to qualify for the purchase of a median-priced home

Housing Affordabilty Index
(Level)



Source: Bloomberg

PUBLIC MARKET OPPORTUNITY – “DEBT”

RESIDENTIAL MORTGAGE-BACKED SECURITIES (RMBS)

"The recent price action in the market has created opportunities where the downside risk is fully priced in. That is, we see many senior bonds where the risk adjusted return is 10-11% in the base case, 4-5% in stress scenarios, and 14-15% in optimistic scenarios. These yields are fundamentally attractive to other sectors, such as high yield, where the nominal (non-risk adjusted) yields are 8-9%."

- Laurie Goodman, *Amherst Mortgage Insight*, November 7, 2011

PUBLIC MARKET OPPORTUNITY - RMBS

The RMBS sector offers many attributes value investors desire:

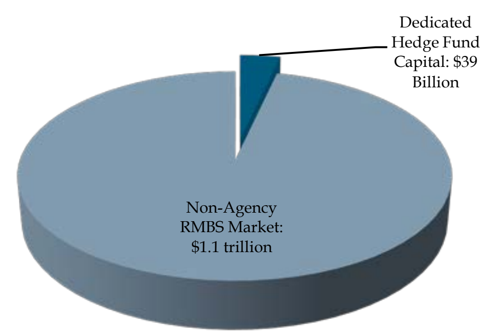
- *price inefficiency;*
- *forced selling;*
- *destabilization of the traditional ownership base;*
- *difficult but not impossible to value securities; and*
- *excess returns for patient capital*

New regulatory standards set by Basel III, Dodd-Frank and the Volcker Rule, along with the Federal Reserve's Maiden Lane liquidation, have resulted in "noneconomic sellers" of RMBS, causing a persistent overhang in pricing and a disconnect from fundamentals…

Summary

- Ongoing technical selling pressures in structured credit markets resulting from: (1) the dismantling of prop desks within U.S. investment banks; (2) the deleveraging of European financial institutions; and (3) institutional investors prohibited from owning below-investment grade securities, combined with analytical complexity have created a unique opportunity for investors to earn high risk-adjusted returns over the next several years
- Despite strong price performance since 2009, many subsectors of the RMBS market remain attractive, offering high "loss-adjusted" yields, as well as the potential for capital appreciation
- As the housing market has begun to stabilize, underlying collateral trends have been better than anticipated, yet this fundamental improvement is not being properly discounted in bond prices. This disconnect has resulted in considerable relative value compared to other fixed income sectors
- Even a modest improvement in the housing sector, including faster prepayments, home price appreciation, reduced delinquency timelines, or government policies benefitting homeowners, could result in total returns exceeding 20% (as securities are re-priced)
- Complexity and operational scale are significant barriers to entry, resulting in a relatively small base of experienced and established Non-Agency RMBS investors relative to the overall size of the market

Non-Agency RMBS



Source: JP Morgan, Pine River

PUBLIC MARKET OPPORTUNITY - RMBS

Summary (continued)

- Bienville believes loss severities will continue to improve over time as the worst borrowers have left the mortgage pool (via defaults). The remaining borrowers have a higher likelihood of paying due to lower loan balances and therefore higher levels of equity in their homes

- Prepayments add value to mortgage securities purchased at deep discounts, but stop the cash flows for interest-only (IOs) investments. Therefore, IO exposure should be focused on pools that are either unlikely to be refinanced, or have already done so through a government program

- Many of the government programs today are inherently pro-borrower, and thus pro-mortgage credit investor, providing potential upside return above base case scenarios

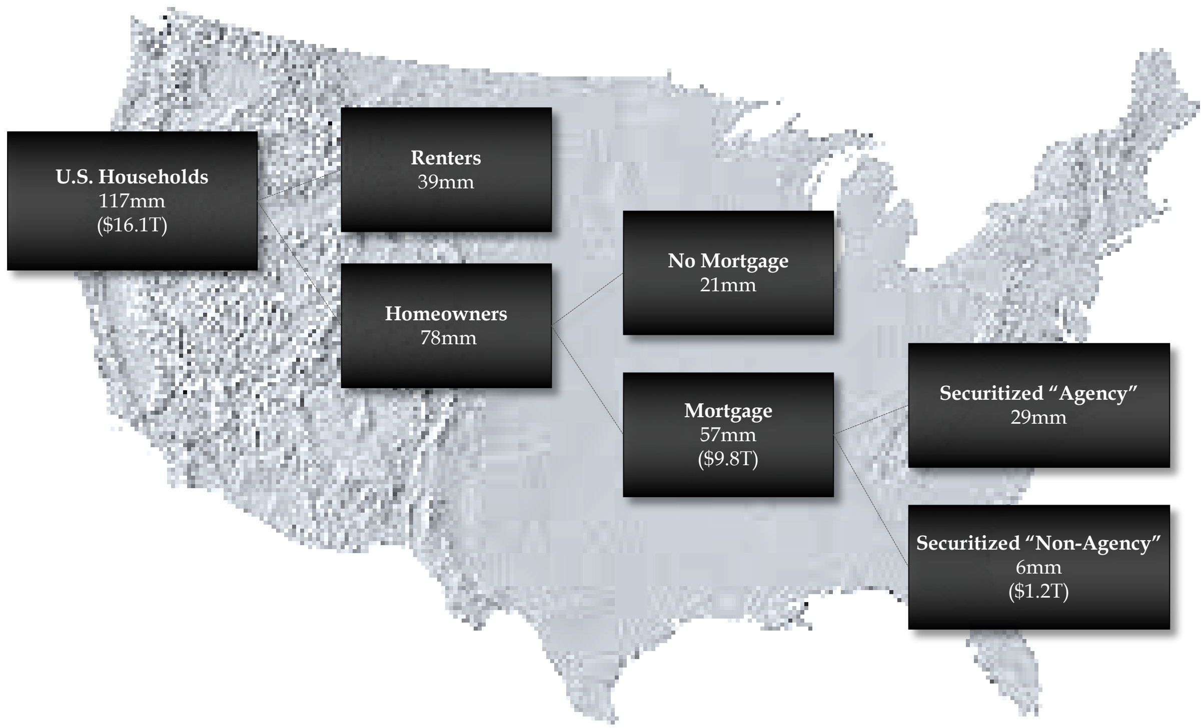
- Prepayments are priced at historically low scenarios. Securities should benefit as they revert to more natural levels over time

- In order to maximize the opportunity in RMBS, Bienville believes exposure to 4 to 6 specialist managers focused on a combination mortgage credit and prepayments results in optimal diversification

PUBLIC MARKET OPPORTUNITY - RMBS

The U.S. housing sector…

- The aggregate value of all homes in the United States is approximately $16.1 trillion; roughly $9.8 trillion (61%) of this value is "mortgaged"
- Of the mortgaged value, $1.2 trillion (12%) represents "Non-Agency" mortgages (i.e., mortgages not originated by Fannie Mae or Freddie Mac)
- A large portion of the mortgage market represents a distressed opportunity for sophisticated investors: 12% of all mortgages are delinquent; and 30% of all mortgages have a current LTV in excess of 100%

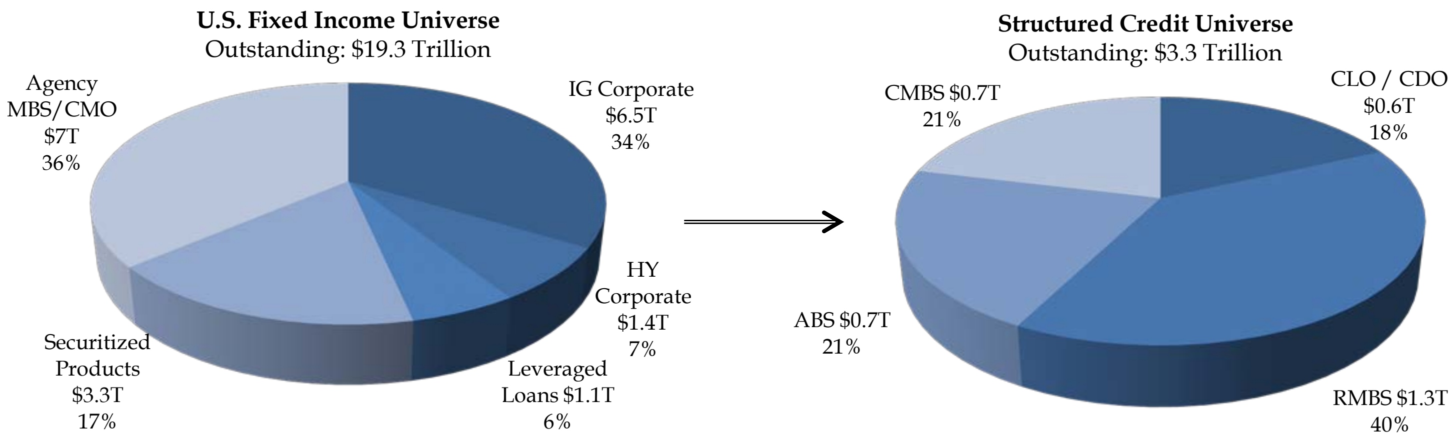


Source: Federal Reserve, Axonic

PUBLIC MARKET OPPORTUNITY - RMBS

The U.S. fixed income credit universe…

- Structured Credit (i.e., securitized products) represents a substantial portion of the overall credit universe



Source: Seer Capital

PUBLIC MARKET OPPORTUNITY - RMBS

Mortgages are pooled together to form a mortgaged-backed security

Agency bonds are originated by either Fannie Mae or Freddie Mac and de facto guaranteed by the U.S. government, hence they are lower yielding

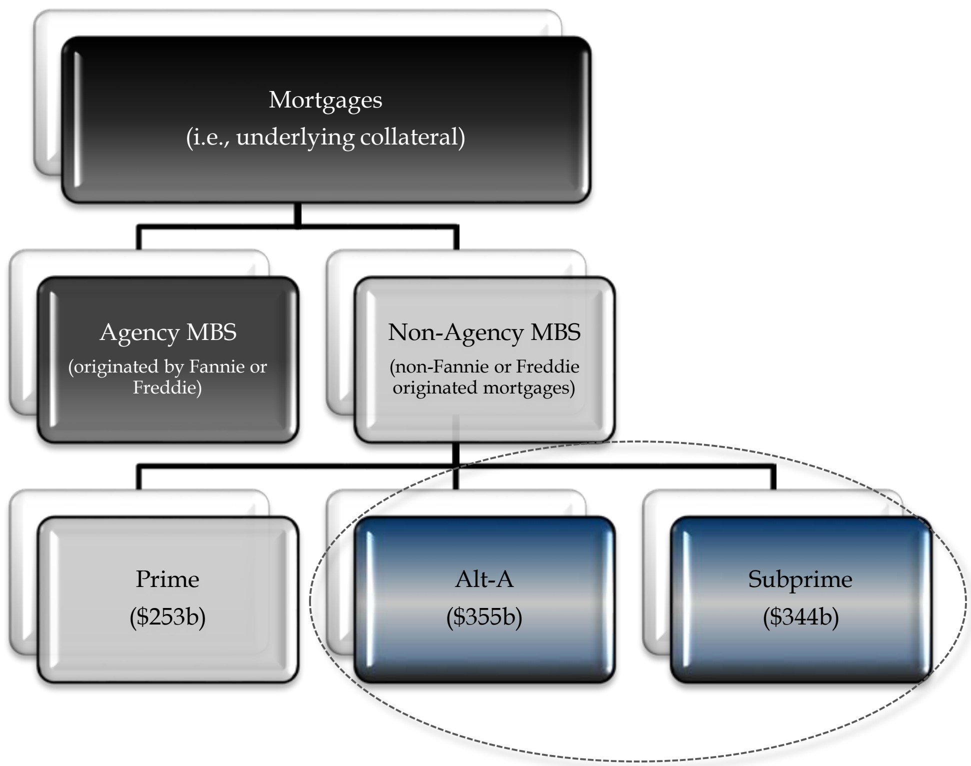
In the Non-Agency MBS space, Alt-A arguably represents the best risk-adjusted opportunity

Many Non-Agency MBS are below investment grade and are less liquid than Agency MBS

Because most Non-Agency RMBSs are now below investment grade, many traditional investors have become forced sellers

Residential mortgage-backed securities (RMBS) represent approximately 40% of the overall structured credit universe…

- Bienville is predominately focused on Alt-A, and to a lesser extent, subprime



Source: CoreLogic; Amherst Securities (November 2011)

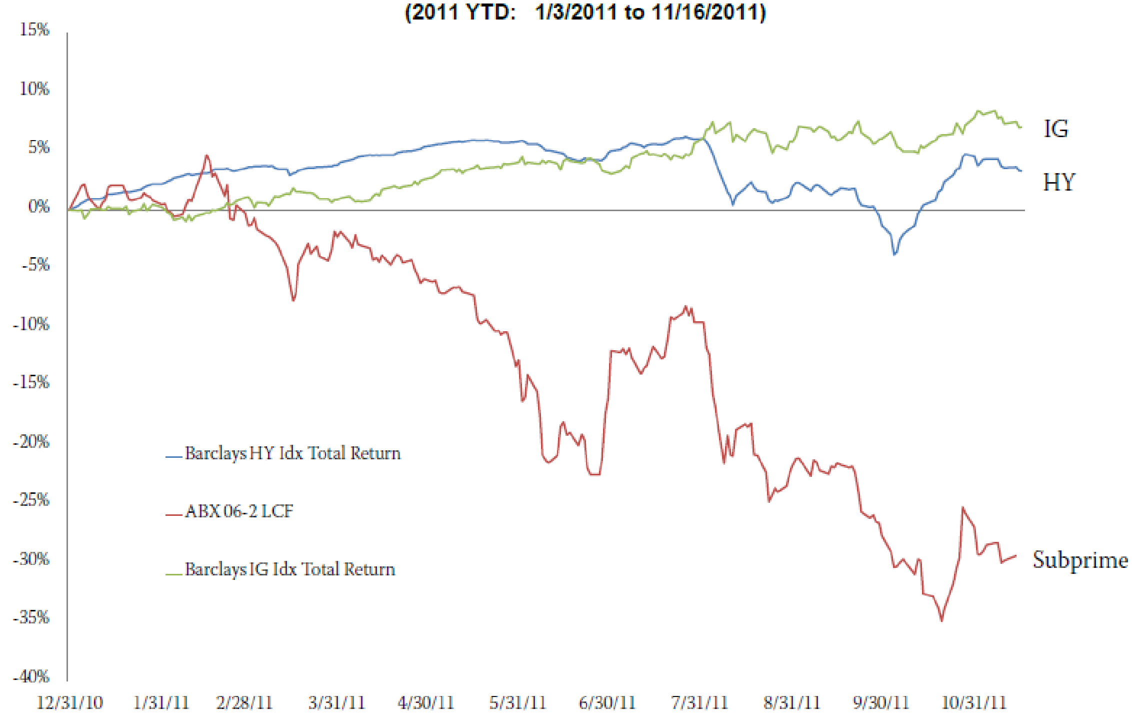
Public Market Opportunity - RMBS

Subprime has materially underperformed corporate credit…

- Despite the improvement of underlying fundamentals in the U.S. Housing Market, forced selling has depressed RMBS prices making them attractive relative to corporate credit
- Announcements of large RMBS supply in 2011, including the Federal Reserve's plan to sell $30bn of non-agency RMBS from Maiden Lane II, caused spreads to widen (pushing bond prices lower)

European financial institutions are reported to own ~$85bn in RMBS. Continued forced selling should create opportunity

Cumulative Return Comparison: Barclays HY Index vs. ABX 2006-2 AAA LCF (2011 YTD: 1/3/2011 to 11/16/2011)



Source: Barclays; Pine River

Public Market Opportunity - RMBS

Defaults have removed many of the least credit-worthy borrowers from the mortgage pools. In other words, those who remain are more likely to stay current on their mortgage payments…

- Borrowers are becoming delinquent at increasingly slower rates. In addition, the rate at which current payers are becoming 30-60 days late is slowing
- Also, the number of borrowers remaining in the pool who have been 'clean' for 2 years and are 'current' today (i.e., those who have successfully managed through the crisis) have been increasing
- Despite these improvements in mortgage borrower delinquency rates, the RMBS sector is currently rated negatively—that is, below investment grade—alienating a large number of traditional buyers and investment managers

Current Ratings – U.S. Securitized Products

	Prime RMBS	ALT-A RMBS	Subprime RMBS	CMBS	Auto ABS	Credit Card ABS	Student Loan ABS
Investment Grade	16%	4%	4%	85%	94%	99%	98%
Non-Investment Grade	84%	96%	96%	15%	6%	1%	2%

Source: Loan Performance, Bloomberg, Morgan Stanley Research, SNL Financial, FDIC, Hayman Capital

PRIVATE MARKET OPPORTUNITY – "EQUITY"

Gulf Coast Opportunities Fund, LP

"Still wounded by the 2007-09 financial crisis, the Gulf Coast was socked by the 2010 BP oil disaster. Taking one thing with another, you are less surprised to discover that Baldwin County real estate values have returned to the levels of the mid-1990s than you are that the county is still on the map."

\- *Grant's Interest Rate Observer*, June 29, 2012

PRIVATE MARKET OPPORTUNITY: GCOF, LP

For information regarding the Gulf Coast Opportunities Fund, LP,
or for a good time, please contact Billy Stimpson

Billy Stimpson
405 Lexington Avenue, 34th Floor
New York, NY 10174
(212) 226.7348
billy.stimpson@bienvillecapital.com

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