Edison investment research

20 December 2006

Alpha Strategic

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
03/06	0.0	(0.2)	(6.3)	0.0	N/A	N/A
03/07e	0.2	(0.1)	(2.6)	0.0	N/A	N/A
03/08e	0.5	0.2	5.0	1.5	24.0	1.3
03/09e	0.7	0.5	9.8	3.9	12.2	3.3

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items

Investment summary: Pooling hedge fund flows

Alpha Strategic offers investors exposure to a platform for pooling the revenues of several singe strategy hedge funds. Alpha has only a single fund on the platform, and we expect that the most significant uplift to the valuation will be as the next two funds are added and diversification benefits take full effect. We value Alpha based solely on the initial fund at 173p; as the next several funds are added, we believe the value could rise toward our base case valuation of 208p.

Securitising hedge fund flows

Alpha strategic plans to pool a percentage of the revenue streams of at least five hedge funds, paying for the investments with Alpha shares. The hedge funds receive in turn a market multiple on a portion of their earnings, diversify risk across hedge fund strategies, and receive a dividend from their Alpha shares. Alpha has one fund on the platform, but the strategy only takes full effect as additional funds are added. Alpha management, which has extensive knowledge of the hedge fund space, expects to source the next deals within 6-12 months.

Model takes effects as second fund added to platform

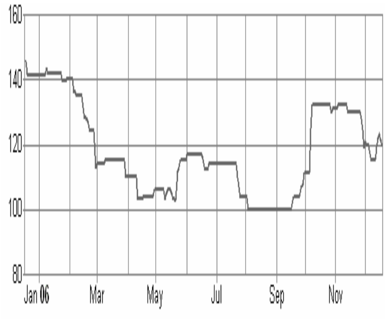
Alpha faces several risks including; 1) a slower than expected addition of a second fund, and 2) potential shareholder conflict as new shares are issued to each new hedge fund, and management ownership is diluted. Minority shareholders will face the specific risk of dilution, although this could be offset by a rising multiple.

Valuation: Expecting multiple expansion with new additions

We forecast that Alpha's first fund will meet its target capacity of £100m capacity by March 2008 (after growing from £8m to £28m since the May 2006 acquisition), and we value this fund at 97p/share. Alpha has cash of £2.5m, which adds 76p/share, for a total current value/share of 173p. We estimate that as four more funds are added to the platform over the next two years, the valuation could move towards 208p.

Price	120p
Market Cap	£4m

Share price graph



Share details

Code	APS
Listing	AIM
Sector	General Financial
Shares in issue	3.31m

Price

	High	Low
52 week	142p	100p

Balance Sheet as at 31March 2006

Debt/Equity (%)	N/A
NAV per share (p)	140
Net cash (£m)	2.5

Business

Alpha Strategic plans to pool a portion of the revenue streams from several single strategy hedge funds

Valuation

	2006	2007e	2008e
P/E relative	N/A	N/A	218%
P/CF	N/A	N/A	26.8
EV/Sales	N/A	11.5	3.6
ROE	N/A	N/A	2%

Geography based on revenues

UK	Europe	US	Other
100%	0%	0%	0%

Analyst

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Investment summary: Pooling hedge fund flows

Company description: Securitising hedge fund inflows

Alpha Strategic offers minority investors an opportunity to invest in the early stages of a new strategy which is a distinct variation on the standard fund of hedge fund model. Alpha plans to pool a percentage of the revenue streams of at least five hedge funds, paying for each new investment in Alpha shares. The hedge funds involved receive a market multiple on a portion of their earnings, diversify risk across hedge fund strategies, and receive a dividend from their Alpha shares. Alpha already has its first fund, the rapidly growing ESA Global Futures, but the strategy only takes full effect as new funds are added, and diversification benefits ensue. We believe that the market will consider the strategy proven as the second and third fund come on to the platform, and that this is where the most of the valuation uplift will arise. Management have both broad and deep knowledge of the hedge fund space and expects to source the next deal within 6-12 months.

Valuation: Considerable upside as new funds come on platform

We believe that Alpha's current share price at 123p does not fully account for the rapid growth of ESA Global which has grown from £8m as of the May 2006 acquisition to £28m currently, and expectations that the fund will grow to capacity of £100m by fiscal YE 2008. Assuming ESA reaches this target, and generates a 7% long-term return, we value the fund at 97p/share. Adding Alpha's £2.5m cash, or 76p/share, we arrive at a base valuation of 173p/share. We assume under our base case scenario that if Alpha is able to add two funds/calendar year, the value could rise to 208p by end-2008.

Sensitivities: Several potential issues in nascent stages

Alpha's strategy carries several risks in its early stages: 1) Poor performance, or redemptions in early stages: When Alpha has only one or two funds on the platform, poor performance from one of the funds could undermine confidence in the strategy (although Alpha's first fund is currently performing strongly). 2) Slow sourcing of deals: The uplift to valuation depends on diversification from new funds added to the platform. If Alpha takes longer than expected to source new funds, this will hold down the share price. 3) Potential conflict between shareholders: A major new shareholder is added with each new fund, with Alpha management's holding becoming increasingly diluted, creating a potential conflict between owners. 4) High potential volatility in early life of fund: Until the second fund is added to the platform, Alpha is 100% exposed to the performance of Winton. 5) Shareholders face dilution risk: Aside from these operational risks, shareholders face a dilution risk inherent in the plan to issue new shares for each new fund.

Financials: Have included only Winton in our model

Our financial model includes only the contribution from the ESA fund, and does not take into account new acquisitions. We estimate that Alpha generates an £86K net income loss in 2007, but forecast that cost inflation remains low (the existing management team is sufficient to handle five funds on the platform) while ESA FUM grows rapidly towards capacity, and Alpha turns a net income profit of £166K by 2008. We expect that the company will maintain a healthy balance sheet (it has currently £2.5m in cash and zero debt) given that it will mainly issue its own shares to invest in the new funds added to the platform.

Company description: Pooling hedge fund revenues

Alpha plans to pool a portion of the top line revenues of five or more hedge funds, creating a diversified hedge fund vehicle. Alpha will offer its own shares as payment to the hedge funds for their stake in the fund, offering in return the opportunity for hedge funds to; 1) gain a market multiple on a portion of their income, 2) diversify risk across strategies and 3) receive a portion of the income retired to Alpha in the form of a dividend payout. The management team has extensive expertise in the hedge fund space, and we believe that they will have the ability to source strong funds for the platform.

Pooling of single strategy hedge fund revenues

Alpha Strategic plans to pool a portion of the revenue streams of five or more single strategy hedge funds, creating a diversified hedge fund investment. The strategy works as follows: the hedge fund manager directs a percentage of the management and performance fees they receive on their fund to Alpha. For example, the first fund on Alpha's platform, ESA Global Futures, surrenders 50% of its management fees, and 50% of its performance fees to Alpha. In ESA's case, the management fees are 1%, and the performance fees are 20%; Alpha receives half of this, or 0.5% of the ESA management fees, and 10% of the ESA performance fees.

Alpha purchases this ongoing revenue stream from the hedge fund using Alpha shares, so the new hedge fund sending a portion of its revenues through Alpha, now becomes a new shareholder of Alpha. The advantages for the hedge fund manager of being on the Alpha platform are as follows;

1. The hedge fund manager is able to take a portion of its management and performance fees, which trade on an implied multiple of one, and gain a market multiple on this portion of their earnings through their holding of Alpha shares.

2. The manager can diversify risk by pooling their revenue streams with other hedge fund strategies for which the returns will be reasonably lowly correlated. For example, the first fund on the platform is a managed futures fund; returns for managed futures funds are historically uncorrelated with the returns of, for example, an equity long/short strategy. Therefore, if Alpha adds a long/short equity fund to the platform as the second fund, diversification benefits ensue, reducing risk.

3. The hedge fund manager directing revenues through Alpha's platform holds Alpha shares, and they will receive a significant dividend payout on these shares.

Alpha is still in the early stages of executing its strategy, but in May 2006 secured the all important first hedge fund on the platform, ESA Global Futures, a managed futures fund, which targets the Swiss institutional market (see further details on ESA below). Although this shows that there is some market confidence in the strategy, is it only with the second fund on the platform that the diversification benefits of the strategy really begin.

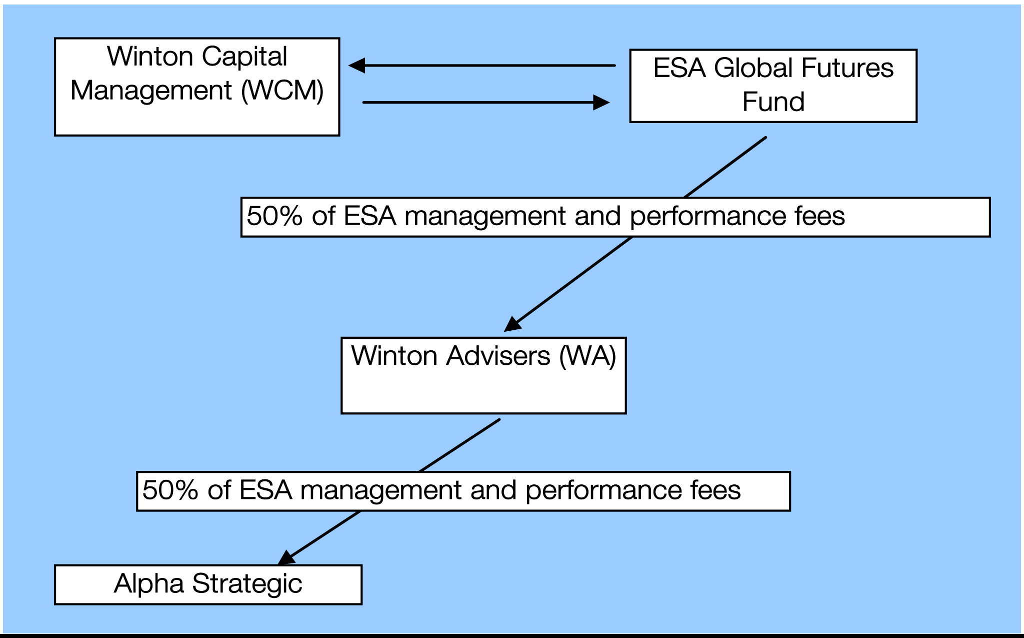
Thus, currently, Alpha is a play on the performance of Winton Advisors, and we assume that the market is currently valuing it as such. We believe that the real value of the strategy will become unlocked with the addition of the second and third fund to the platform. At this point we expect that we will observe a significant uplift in the valuation above simply the discounted value of the revenue stream being added, as the diversification benefits begin at the same time as market confidence rises significantly as the plan shifts from promise to actual delivery.

Ownership structure of Alpha's first fund

Exhibit 1 shows the ownership structure of the first fund on Alpha's platform, ESA Global futures, a managed futures fund, targeting institutional investors in Switzerland. The fund is managed by Winton Capital Management (WCM). WCM is a London-based global hedge fund futures fund manager, which was established in 1997 by David Harding, Osman Murgian and Martin Hunt; Mr. Harding has over 20 years experience in managed futures, having originally established the Man Group's current flagship AHL fund (which stands for Adam, Harding and Lueck). WCM established Winton Advisors Limited (WA), to which it directs 50% of the management and performance fees from ESA.

Alpha acquired Winton Advisors on 23, May, 2006, giving it access to half of the revenues from ESA. We expect that management may follow a similar structure in the acquisition of subsequent funds, establishing a holding entity to which the hedge funds surrender a portion of its revenues, and then acquiring this holding entity. As is common in the hedge fund space, the fund cannot currently undertake marketing in its target market with regulatory approval, and its growth has so far been driven by direct interest from institutional investors. However, the fund expects to gain regulatory approval by late 2007-early 2008 to undertake marketing in Switzerland, which should further help drive growth in the fund to the $100m capacity.

Exhibit 1: Structure of the first fund



Source: Alpha Strategic

Differs from standard fund of hedge funds model

Although superficially similar to a fund of hedge funds, Alpha's strategy is unique if compared to the standard fund of hedge funds model. Alpha receives a proportion of the top line of each fund, before expenses. Consequently, Alpha's income stream will not be affected by the cost structure of a given hedge fund added to platform. Alpha management makes very clear that it will leave the hedge fund managers free to structure the cost base as they see fit. This is in keeping with Alpha's plan to select hedge funds with strong management, and maintain a 'hands off' policy with no input into the day to day operation of a fund on the platform. Investors should note that this differs somewhat from the typical fund of funds, which would tend to share in the earnings of the fund, not the top line revenues, and increase the potential for the fund of hedge funds manager to hold some sway over the cost issues and the general operation of the fund.

Competitive advantage: Confidence in management

Alpha's key competitive advantage is the strength of the management team, which combined have extensive experience in the hedge fund space. Alpha's strategy has few precedents, and requires that hedge fund managers hand over a significant proportion of their revenues. Therefore it is critical that hedge fund managers considering working with Alpha have extremely high confidence that management can successfully implement the strategy. We believe that this required high level of 'confidence in management' will remain a significant barrier to entry for competitors attempting to replicate this strategy in the medium term.

A pure fund of hedge funds strategy generally makes a direct investment in the fund, allowing the fund invested in to expand its FUM. Alpha's strategy, in contrast, does not directly inject funds into the funds on the platform, and is paid for in shares, not cash. We believe that degree of confidence for hedge fund management to buy into a fund of funds proposal is much lower than that required for Alpha. That Alpha already has one fund committed to the model is evidence of a high level of confidence in the management. Below we are the biographies of Alpha Strategic management:

Colin Barrow (Chairman): Colin has a long track record in the hedge fund industry. He founded the hedge fund group which eventually became the Man Group, negotiating the purchase and structuring of the keystone Mint and AHL futures management businesses, and was on the board of directors which took the company public in 1995. He has been a partner at Sabre Fund Management, a director at structured finance firm Eiger Capital, and now at Alpha Strategic, where he is now Chairman and the largest shareholder.

Kit Malthouse (Chief Executive): Since qualifying as a Chartered Accountant with Deloitte and Touche in London, Kit has spent most of his career in structured finance, initially working with a property developer devising strategies and structures to maximise tax advantages in regeneration-led development and the transfer of this benefit to investors. Kit was also a founder of County Asset Finance Ltd., and equipment leasing business, and in 2001 he led the management buyout of this business backed by Singer & Friedlander Bank.

Strategy takes full effect as second and third deals completed

At this point, there is still considerable risk to the strategy, as it is only after the second fund is added to the platform do diversification benefits begin to accrue. We believe that it is really only after the third fund is added that strategy could be viewed as taking full effect. Management expects, and we concur, that after the third hedge fund is added, attracting the fourth and fifth strategy to the proven platform will be comparably easy.

Financials: Only Winton included in our model

Our financial model for Alpha only takes into account Winton, and not the potential future funds added to the platform (although we do address the potential effects on the financials of new the new funds in our valuation section). Alpha has already seen significant success from its Winton acquisition, given that it has grown from $8m to close to $30m currently and we estimate that fund continues to grow rapidly to its $100m capacity by end calendar 2008 (Lines 1,2). We assume a $2.0/£ exchange rate when converting the FUM to £ (Line 3). Alpha has contracted to receive one half of Winton's management fees (or 0.5% of the 1% management fee) and one half of Winton's 20% performance fees, and we assume a 14.5% return (we have backed out this assumed return from the current share price as outlined in our valuation section). We expect Winton contributes £64K in management fees, and £90K in performance fees to Alpha in 2007 and £201K and £282K, respectively, in 2008.

Exhibit 2: Revenue forecast for Alpha (based on single fund, Winton)

Winton	2006	2007	2008	2009	2010	2011	2012
1) Winton Invested FUM YE ($ '000)		36,000	100,000	100,000	100,000	100,000	100,000
2) New investment in fund		28,000	64,000	0	0	0	0
3) Average invested FUM		22,000	68,000	100,000	100,000	100,000	100,000
4) Return on the Fund (%)		7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
5) Total Average FUM ($ '000)		25,676	80,439	117,913	126,167	134,998	144,448
6) Total YE FUM ($ '000)	8,000	38,520	109,696	117,375	125,591	134,383	143,790
7) Forex Rate	1.900	2.000	2.000	2.000	2.000	2.000	2.000
8) Total Average FUM (£ '000)		12,838	40,219	58,956	63,083	67,499	72,224
9) Total YE FUM (£ '000)	4,211	19,260	54,848	58,688	62,796	67,191	71,895
10) Winton Management Fee		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
11) Winton Management Fee to Alpha		0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
12) Winton Performance Fee		20.0%	20.0%	20.0%	20.0%	20.0%	20.0%
13) Winton Performance Fee to Alpha		10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
14) Expected Return		7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
15) Winton Management Fees to Alpha (£ '000)		64.2	201.1	294.8	315.4	337.5	361.1
16) Winton Performance Fees to Alpha (£ '000)		89.9	281.5	412.7	441.6	472.5	505.6
17) Total Fees to Alpha (£ '000)		154.1	482.6	707.5	757.0	810.0	866.7

Source: Company/Edison Investment Research

As shown in Exhibit 3, we expect that Alpha's cost base (administrative expenses) remains relatively flat over time (growing 3%, or inline with inflation), with the main costs being staff costs, and the current management team sufficient to build up the platform to five funds. Assuming Winton's FUM continues to grow rapidly and the performance holds at 7.0%, earnings will rise rapidly, from a loss of £86K in 2007 to a profit of £166K in 2008 (assuming a 30% tax rate). We estimate that the Alpha begins a 30% dividend payout in 2008, moving towards a 100% over time. Although we only include Winton in our model, we expect that Alpha will move toward a 100% payout even as new funds are added to the strategy, given that the company plans to issue shares to fund new acquisition rather than internal cash flow.

Balance sheet assets consist mainly of £2.5m in cash, recorded under investments in the balance sheet from 2006. Also under investments is the £327K purchase of the Winton revenue stake, which we forecast grows in proportion to the rise in Winton FUM. Equity rises in 2007 in-line with value of the Winton acquisition; we do not forecast the potential new acquisitions in our financial model, but do show the effect on equity of new funds in our valuation section below.

Exhibit 3: Alpha Strategic P&L

P&L £'000 (YE Mar)	2006	2007E	2008E	2009E	2010E	2011E	2012E
Revenues	0	154	483	707	757	810	867
Administrative expenses	(282)	(290)	(299)	(308)	(317)	(327)	(337)
Operating Profit	**(282)**	**(136)**	**183**	**399**	**440**	**483**	**530**
Operating Margin		(1)		1	1	1	1
Interest Receivable	73	51	54	63	80	104	138
Pre-tax Profit	**(209)**	**(86)**	**237**	**462**	**519**	**587**	**668**
Tax			(71)	(139)	(156)	(176)	(201)
Net Income	**(209)**	**(86)**	**166**	**324**	**363**	**411**	**468**
Dividend Payout	0	0	0	0	1	1	1
Dividend/Share	0	0	2	4	5	6	11
EPS (£)	(6)	(3)	5	10	11	12	14
Shares '000	3,309	3,309	3,309	3,309	3,309	3,309	3,309

Source: Company Accounts / Edison Investment Research

Sensitivities: Higher risk in the early stages

A risk of underperformance of funds early on

If one or more of the funds on Alpha's platform were to see significant underperformance early in the life of Alpha, this would hit Alpha's revenues doubly; 1) first, the management fee revenues would decline; 2) redemptions could increase from the hedge fund, reducing the level of FUM, thus reducing the management fees and performance fees in subsequent periods. Also, we believe that this could undermine confidence in the strategy and make it more difficult for management to source new funds for the platform. We have assumed a conservative 5% increase in FUM in our prototypical fund acquisition, to account for volatility in redemption levels for a given fund, but we imply that on the whole, Alpha sees a gradual rise in aggregate FUM across the platform.

Slower than expected sourcing of deals

We assume that Alpha adds two funds to the platform per year in calendar 2007 and 2008, for a total of five funds on platform by end-2008. If Alpha does takes considerably longer than we estimate, it would hold down the valuation from our current expectations. We believe that sourcing funds may become easier for Alpha after the third fund is added, the strategy will have at that point been shown to be viable to the market, diversification benefits will have accrued.

Potential for conflict between shareholders

As Alpha grows, with each new hedge fund added to the platform, management's stake is further diluted. We estimate that from a current shareholding of 100%, management's holding would be reduced to 34% by the time the fifth hedge fund is added in 2008. This would mean a significant shift in shareholder power towards the fund managers. We believe that there is the potential for conflict here as single strategy fund managers are by nature independent minded, and there is a chance that Alpha may see conflict between the shareholders over the direction of Alpha, just as management's shareholding control is being diluted. It will thus be key for the strategy that the decision making remains with Alpha management, and does not shift to fund managers themselves, which could cause conflict when determining new targets for acquisition. Alpha management notes that given the large size of the hedge fund space, they believe it will be able to find hedge fund managers who are fully invested in the strategy long-term, and will maintain as much of an arm's length relationship with the day to day running of Alpha, as Alpha maintains the hedge funds on the platform.

Higher potential volatility early in the life of Alpha

We believe that the period from now until the next hedge fund is added to Alpha's platform may be the most precarious, given its exposure to just one single strategy hedge fund. Underperformance of this one fund could derail the strategy, given that its will use its stock as the currency for acquisition of additional revenue streams. If this one fund underperforms, this could decrease Alpha's stock price, and reduce its financial flexibility in sourcing its key second hedge fund. However, there is also significant opportunity during this time, as we expect to see a jump in Alpha's price after the second deal is secured, given that diversification benefits begin to accrue at this point.

Valuation: Backing out implied 173p DCF valuation

We value Alpha assuming that the current share price of 123p does not fully reflect the value of the Winton fund, given our expectations that the fund will soon reach its $100m capacity. Applying an estimate of a 7.0% return/year over the lifetime of the fund, a discount rate of 15% and a terminal growth rate of 3%, we estimate a value of 97p/share for the fund (Exhibit 4). If we add the £2.5m in cash on Alpha's balance sheet, we arrive at a 173p/share value for the shares currently.

Exhibit 4: Backing out implied Winton value from 130p share price using DCF

Alpha (Winton Advisors share in ESA Global Futures)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Free Cash Flow		(415)	162	322	361	408	464	530	606	695	798	917
NPV		(361)	122	212	207	203	201	199	198	198	197	197
Cash flows	1,573											
Terminal Value	1,642											
Net Cash	2,500											
Equity Value	5,715											
Shares	3,310											
Value/Share (£)	1.73											
Discount Rate	15.0%											
Terminal Growth	3.0%											
Equity Value/Share (£)	0.97											
Net Cash Value/Share (£)	0.76											
Value/Share (£)	1.73											

Source: Bloomberg/Edison Research Investment

Exhibit 5: Scenario analysis of change in valuation of Alpha strategic as new funds added to platform over time

Base Case Scenario

Shares	3310
Value/Share	**1.73**
Equity Value	5,715

Aggressive Scenario

New Fund Value	2500	New Fund Value	2500	New Fund Value	2500	New Fund Value	2500
Share Price for Purchase	1.73	Share Price for Purchase	2.16	Share Price for Purchase	2.26	Share Price for Purchase	2.30
Additional Shares	1448	Additional Shares	1158	Additional Shares	1104	Additional Shares	1089
Equity Value (pre-uplift)	8,215	Equity Value (pre-uplift)	10,715	Equity Value (pre-uplift)	13,215	Equity Value (pre-uplift)	15,715
Uplift to valuation	**25.0%**	**Uplift to valuation**	**25.0%**	**Uplift to valuation**	**22.0%**	**Uplift to valuation**	**20.0%**
New Equity Value	10,268	New Equity Value	13,393	New Equity Value	16,122	New Equity Value	18,857
New Total Shares	4,758	New Total Shares	5,917	New Total Shares	7,021	New Total Shares	8,110
Value/New Total Shares	***2.16***	***Value/New Total Shares***	***2.26***	***Value/New Total Shares***	***2.30***	***Value/New Total Shares***	***2.33***
Value/Original Shares	2.48	Value/Original Shares	3.24	Value/Original Shares	3.99	Value/Original Shares	4.75
Dilution on original shares	43.7%	Dilution on original shares	78.7%	Dilution on original shares	112.1%	Dilution on original shares	145.0%

Base Case Scenario

New Fund Value	2500	New Fund Value	2500	New Fund Value	2500	New Fund Value	2500
Share Price for Purchase	1.73	Share Price for Purchase	1.99	Share Price for Purchase	2.05	Share Price for Purchase	2.06
Additional Shares	1448	Additional Shares	1259	Additional Shares	1221	Additional Shares	1212
Equity Value (pre-uplift)	8,215	Equity Value (pre-uplift)	10,715	Equity Value (pre-uplift)	13,215	Equity Value (pre-uplift)	15,715
Uplift to valuation	**15.0%**	**Uplift to valuation**	**15.0%**	**Uplift to valuation**	**13.0%**	**Uplift to valuation**	**12.0%**
New Equity Value	9,447	New Equity Value	12,322	New Equity Value	14,932	New Equity Value	17,600
New Total Shares	4,758	New Total Shares	6,017	New Total Shares	7,238	New Total Shares	8,450
Value/New Total Shares	***1.99***	***Value/New Total Shares***	***2.05***	***Value/New Total Shares***	***2.06***	***Value/New Total Shares***	***2.08***
Value/Original Shares	2.48	Value/Original Shares	3.24	Value/Original Shares	3.99	Value/Original Shares	4.75
Dilution on original shares	43.7%	Dilution on original shares	81.8%	Dilution on original shares	118.7%	Dilution on original shares	155.3%

Conservative Case

New Fund Value	2500	New Fund Value	2500	New Fund Value	2500	New Fund Value	2500
Share Price for Purchase	1.73	Share Price for Purchase	1.90	Share Price for Purchase	1.94	Share Price for Purchase	1.96
Additional Shares	1448	Additional Shares	1316	Additional Shares	1288	Additional Shares	1278
Equity Value (pre-uplift)	8,215	Equity Value (pre-uplift)	10,715	Equity Value (pre-uplift)	13,215	Equity Value (pre-uplift)	15,715
Uplift to valuation	**10.0%**	**Uplift to valuation**	**10.0%**	**Uplift to valuation**	**9.0%**	**Uplift to valuation**	**8.0%**
New Equity Value	9,036	New Equity Value	11,786	New Equity Value	14,404	New Equity Value	16,972
New Total Shares	4,758	New Total Shares	6,074	New Total Shares	7,363	New Total Shares	8,641
Value/New Total Shares	***1.90***	***Value/New Total Shares***	***1.94***	***Value/New Total Shares***	***1.96***	***Value/New Total Shares***	***1.96***
Value/Original Shares	2.48	Value/Original Shares	3.24	Value/Original Shares	3.99	Value/Original Shares	4.75
Dilution on original shares	43.7%	Dilution on original shares	83.5%	Dilution on original shares	122.4%	Dilution on original shares	161.1%

Source: Company accounts/Edison Investment Research

In Exhibit 5, we build on this 173p estimate, assuming that Alpha is able to make its acquisitions using the current value of the shares. We have valued a typical Alpha acquisition, as shown in Exhibit 6, assuming a fund with US$28m FUM at the time of acquisition (or close to the current level of Winton FUM), growing at 5%, and returning 5%/p.a. We assume a 5% return to account for the potential variation in return among the five funds to be added eventually to the platform (this is conservative, given an average historical hedge fund return of 10%.) We value this typical fund under this scenario (the middle path the Exhibit 5) at £2.5m. At the first node on the middle path in Exhibit 5 we assume that Alpha purchases its stakes in the fund using only Alpha shares, at 173p/share.

Targeting a base case valuation of 208p assuming five funds

At each node, we assume that the new fund causes a significant uplift to the valuation, as diversification benefits from the strategy rise, as does market confidence in the long term viability of the strategy. Our scenario analysis shows different levels uplift in the valuation, or expansion in the multiple from the addition of each new fund, assuming a 15% uplift under the base case, a 10% uplift under the conservative case, and a 25% multiple expansion under the aggressive case. We also expect that the uplift to the valuation from each additional acquisition over time will fall somewhat, as the added diversification benefits from the marginal added fund declines. Under our middle path base case scenario, we expect that the company is able to add two funds in both calendar 2007 and 2008, which would imply a 208p share price for the shares.

Exhibit 6: Valuation of the typical hedge fund added to the platform

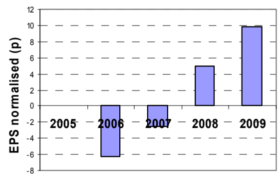
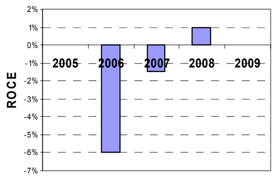
Average Fund (Starting FUM £28m)		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Beta Fund FUM (£ '000)		28,000	29,400	30,870	32,414	34,034	35,736	37,523	39,399	41,369	43,437	45,609
Growth in Beta FUM		5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Management Fee		1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Performance Fee		20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Expected Return		5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Beta Management Fees to Alpha		140	147	154	162	170	179	188	197	207	217	228
Beta Performance Fees to Alpha		140	147	154	162	170	179	188	197	207	217	228
Total Fees to Alpha		280	294	309	324	340	357	375	394	414	434	456
Cash Flows	1,747	243	221	201	183	167	152	139	126	115	105	95
Terminal Value	753											
Total Value	2,500											
Discount Rate	15%											
Terminal Growth	3%											

Source: Edison Investment Research

Exhibit 7: Financials

£'000s	2006	2007E	2008E	2009E
Year end March				
PROFIT & LOSS				
Revenue	0	154	483	707
Cost of Sales	(282)	(290)	(299)	(308)
Gross Profit	(282)	(136)	183	399
EBITDA	(282)	(136)	183	399
Operating Profit (before GW and except.)	(282)	(136)	183	399
Goodwill Amortisation	0	0	0	0
Exceptionals	0	0	0	0
Other	0	0	0	0
Operating Profit	(282)	(136)	183	399
Net Interest	73	51	54	63
Profit Before Tax (norm)	(209)	(86)	237	462
Profit Before Tax (FRS 3)	(209)	(86)	237	462
Tax	0	0	(71)	(139)
Profit After Tax (norm)	(209)	(86)	166	324
Profit After Tax (FRS3)	(209)	(86)	166	324
Average Number of Shares Outstanding (m)	3.3	3.3	3.3	3.3
EPS - normalised (p)	(6.3)	(2.6)	5.0	9.8
EPS - FRS 3 (p)	(6.3)	(2.6)	5.0	9.8
Gross Margin (%)	N/A	(88.5%)	38.0%	56.4%
EBITDA Margin (%)	N/A	(88.5%)	38.0%	56.4%
Operating Margin (before GW and except.) (%)	N/A	(88.5%)	38.0%	56.4%
BALANCE SHEET				
Fixed Assets	0	1,575	4,484	4,798
Intangible Assets	0	0	0	0
Tangible Assets	0	1,575	4,484	4,798
Investment in associates	0	0	0	0
Unquoted investments	0	0	0	0
Current Assets	2,557	3,926	6,714	6,751
Stocks	0	0	0	0
Debtors	8	12	18	22
Cash	2,549	2,564	2,581	2,602
Other	0	1,350	4,115	4,128
Current Liabilities	(37)	(39)	(41)	(43)
Creditors	(37)	(39)	(41)	(43)
Other creditors	0	0	0	0
Short term borrowings	0	0	0	0
Minority interests	0	0	0	0
Long Term Liabilities	0	0	0	0
Long term borrowings	0	0	0	0
Other long term liabilities	0	0	0	0
Net Assets	2,520	5,461	11,157	11,506
CASH FLOW				
Operating Cash Flow	(180)	(88)	162	322
Net Interest	73	51	54	63
Tax	0	0	(71)	(139)
Capex	0	0	0	0
Acquisitions/disposals	(2,476)	(327)	0	0
Financing	2,729	327	0	0
Dividends	0	0	(50)	(129)
Other	(73)	(51)	18	76
Net Cash Flow	73	(88)	112	193
Opening net debt/(cash)	(2,476)	(2,549)	(2,564)	(2,581)
HP finance leases initiated	0	0	0	0
Other	0	103	(95)	(172)
Closing net debt/(cash)	(2,549)	(2,564)	(2,581)	(2,602)

Source: Company accounts / Edison Investment Research

Growth	Profitability	Balance sheet strength
		N/A

Sensitivities evaluation	
Litigation/regulatory	○
Pensions	●
Currency	◖
Stock overhang	○
Interest rates	●
Oil/commodity prices	◖

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 04-08e	N/A	ROCE 07e	-1.5	Gearing 07e	N/A	Address:	
EPS CAGR 06-08e	N/A	Avg ROCE 03-07e	N/A	Interest cover 07e	N/A	8 Barton Street, London, SW1P 3NE, UK	
EBITDA CAGR 04-08e	N/A	ROE 07e	-1.6	CA/CL 07e	37.3		
EBITDA CAGR 06-08e	N/A	Gross margin 07e	-88.5	Stock turn 07e	N/A	Phone	0207-222-2223
Sales CAGR 04-08e	N/A	Operating margin 07e	-88.5	Debtor days 07e	28.4	Fax	
Sales CAGR 06-08e	N/A	Gr mgn / Op mgn 07e	1.0	Creditor days 07e	92.0	[Click here to add website]	

Principal shareholders	%
Colin Barrow	15.1
David Harding	11.3
Roy Nominees Limited	10.0
IGPL Limited	8.3
OMX Securities Nominees Ltd	5.0
Malcolm Easey	5.0
Horizon Management DP Ltd	4.5

Forthcoming announcements/catalysts	Date *
Preliminary announcement	July 2007*
AGM	Sept 2007*
*Note: * = estimated*	

Management team
Chairman: Colin Barrow
Colin helped found the Man Group and was on the board of directors when it was taken public in 1995 and has been a partner at Sabre Fund Management and a director at structured finance firm Eiger Capital.
Chief Executive: Kit Malthouse
Kit is Chartered Accountant, starting at Deloitte and Touche, then moving into a career in structured finance. Kit was also a founder of County Asset Finance Ltd., and in 2001 he led the management buyout of this business backed by Singer & Friedlander Bank.

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