Orange Capital Partners

Dear Investors,

Orange Capital returned 5.92% net of cost and fees[1] in the third quarter.

The third quarter was generally good for the market. Business activity picked up in July and kept improving in August. According to our latest discussions with portfolio companies and other sources activity slowed down somewhat in September. This is also reflected in the latest macro economic data showing that the US manufacturing, labor and housing sectors slowed down in September. We believe the recent market sell off is partly related to this slowdown in September and somewhat related to other factors such as credit problems in financial institutions. We are not concerned about the situation in the US because we are seeing the painful adjustments taking place. People are cutting on expenses and businesses are firing excess workers and restructuring into leaner organizations.

We started the third quarter with 45% net long exposure. As the business environment showed signs of improvement in early summer we exited our short index position and kept our exposure at 65% net long. The key question during the summer months was whether the signals from companies and later on from macro data are real or if they are just a temporary blip in the continuous downturn of the US economy. We found three encouraging signals which made us believe in a more sustainable recovery.

First, the companies we follow in China are reporting better business conditions in August and even in September. With a few exceptions most of them seem more confident than when we visited them in June. For example, Baosteel, a large Chinese steel manufacturer, has better orders and saw inventories decline. Even better was the picture for Chalco, a chinese aluminum producer. Their capacity utilization is back to 70% after a low of 35% earlier this year. They sound much more upbeat than in June when we met them in Beijing. Second, the consumer goods companies we follow started showing better numbers in the US, which is unexpected and great news for the market. This observation was later supported by Chinese companies showing better orders for their export business which is directly related to US consumer demand. Third, we were surprised by the announcement of Arcelor Mittal, a large steel company with assets in the US and emerging markets, that they are seeing a pick up in their US business. This gave us more confidence in a recovery in the US.

In addition to that there is a lot more M&A activity. We take this as a very strong signal that companies are more comfortable with their own businesses. In March when the world was almost standing still Pepsi Co. made a bid for its own bottlers. Later we saw activity in the Oil & Gas space where interestingly some bids actually failed because the targets' board didn't like the price. We saw Dell buying Perot Systems, Kraft bidding for Cadbury and Xerox bidding for ACS. It is interesting that most of these deals are lead by women ceo's.

1 Compensation is based on a 20% incentive fee.

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We decided to keep the portfolio concentrated as usual. Our largest positions are Electricite de France, Areva, Monsanto and Energies Nouvelles.

We bought Electricite de France at 35.88 (it closed the third quarter at 40.54 with a gain to us of 1.6%) . EDF is the world's largest operator of nuclear reactors. They are also building new plants in the UK, France, the US and China. China alone is expected to build up to 154 reactors in the coming years so demand for nuclear power should be robust.

Another similar investment is Areva, we bought the stock at 399.52 (394.5, -0.15%). Areva is a fully integrated provider of technologies in the nuclear power value chain. Given the potential for nuclear power and the scarcity of providers we believe Areva is grossly undervalued. We believe that the Copenhagen climate conference in December will be a trigger for CO_2-free technologies in countries with low penetration such as the US and China.

We bought Monsanto at 81.76 (77.4, -0.73%). Monsanto is the largest producer of seeds & traits for corn, soy and other crops. We spent two days in Iowa with management visiting their research plants and farms and we were impressed. We believe it is only a matter of time until the platform starts bearing fruit and delivering better earnings and cash flow. We see Monsanto particularly well positioned because the competition is lagging and the demand is expected to grow. Another positive is the low corn price right now. If corn prices rise Monsanto should do better.

We bought EDF Energies Nouvelles at 33.04 (37.67, +2%). Energies Nouvelles is the renewable energy arm of Electricite de France. It has all the ingredients we like in a company. We have good access to management, it is well positioned in key markets with rising demand, the founders still own 25% of the company and the price we paid was very inexpensive. Their main business is in wind power but they are also growing in solar and other renewable technologies.

We have a large position in the Chinese Renminbi. We are long the non-deliverable forward on the CME, the only way for us to get exposure to the RMB. The RMB is undervalued and the pressure on the Chinese central bank to appreciate is mounting not just from the US but also from its own leading companies. Top steel producers and other local businesses are much better off with a strong RMB so they can import raw materials cheaper. China is a large importer of dollar denominated commodities. We got the sense from some of the large companies there that they are willing to lobby for a stronger RMB. Another reason for the currency to appreciate is the fact that China needs to switch its growth model from export to internal demand and from low end manufacturing to higher end production. We see the RMB as a spectacular risk/reward with virtually no downside and decent upside.

On the short side we are short Gold through the GLD ETF. We sold the GLD at 92.33 (98.85, -0.99%). Our main issue with buying gold is that we don't see inflationary pressures in the US economy. To the contrary, we believe there is still strong pressure for price decreases in many industries. We noticed that consumer goods companies can increase their volumes in the US by lowering prices. Another area where price declines are likely is in infrastructure. While steel and other components have already adjusted many construction and manufacturing industries are still trying to protect their higher prices from 2007. This will not last and we therefore see a further price decline in the US not the opposite. Within that context we don't believe Gold is a good hedge for the risks ahead.

During the quarter we exited a few positions.

We sold NYX (NYSE Euronext) with a profit of 1.5% (return to the portfolio). We decided to part from NYX because the stock was not showing any signs of improvement. During our last conversation with the company they reiterated the fact that competition is tough and the regulatory environment not favorable. We were expecting Deutsche Boerse to make a bid for NYSE. While we still think this will happen, we are not willing to wait anymore.

We sold the RSX with a profit of 4.5%. The RSX is the ETF for the Russian index and is a good proxy to be long Gazprom. While we still think Gazprom is a very good investment given the long term fundamentals of natgas and the improving corporate governance within the company we decided to exit the position because the volatility was too high. Given our time horizon and investment profile such volatility is difficult to manage.

We sold our NYMEX oil futures. We bought the Dec Oil future at 66 $ and exited with a gain of 1.55%. We bought oil with a price target of 80$ per barrel. This was mainly driven by our research in China. The government announced new price regulation that maximizes the profits of refiners at 80$ a barrel. We concluded that the refiners would be buying oil aggressively in the market up to 80$ per barrel. At this point we feel that most major players in the oil market are comfortable with oil in the mid 70s. Hence, we decided to exit at 75$.

We want to share with you some of the most interesting results from our trip to China. We met 26 companies in late June. Most of them are Chinese mainland companies, some are Western companies with large subsidiaries in China. The growth in cities like Beijing, Shanghai and Xian is visible and we felt energy and hope as opposed to some parts of the developed world. We came back with three main investment themes. First, we strongly believe the RMB will appreciate soon since there is enough willingness within the country to do so. Second, we believe China is doing a lot more than expected to clean up its environment. They are investing in nuclear power, renewables and natgas. Third, we believe the market is still underestimating the power of consumers in China. They have purchasing power and the desire to consume. This should benefit consumer companies with strong affordable brands. We have L'Oreal in our portfolio because they are aggressively penetrating those markets and we believe they will be successful at it.

Finally, in terms of new ideas, we are working on the LNG market (Liquid Natural Gas) worldwide. The key theme is that LNG will transform gas into a globally traded commodity like oil. This could lead to a build out in new infrastructure around the world for the processing and usage of natgas. It is an emerging industry with large potential in Asia and the Middle East. The situation is complex and offers plenty of opportunity but also risk. We aim to quantify the risk/reward and to find the best vehicles to invest in.

Thanks,

Krim Delko

New York, October 7th 2009