

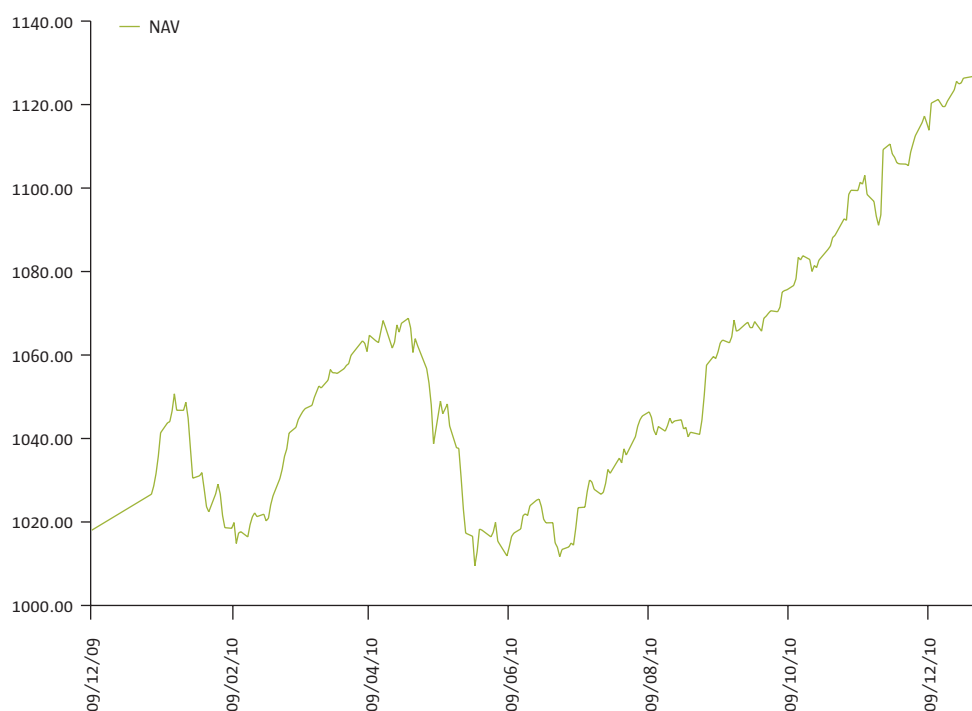
Cheyne Convertibles Absolute Return Fund

Best Relative Value Fixed Income (inc Credit) Fund

HAMLIN LOVELL

Fig.1 Fund Performance

Source: UCITS Hedge

**Key details**

Fund name Cheyne Convertibles Absolute Return Fund

Management company Cheyne Capital Management

Promoter Cheyne Capital Management

Status Open

Inception date 1st December 2009

Strategy

Kind of fund Absolute Return

Strategy group Long

Region Global All

Asset classes Equities, credit, convertible bonds

Particulars

Currency EUR, USD, GBP

Share class name Class S2 EURO

ISIN IE00B4MBZ034

Bloomberg ticker CHSCNIE ID

Domicile Ireland

Listing Irish Stock Exchange

Fund structure Investment Company with Variable Capital

NAV calculation Daily

Liquidity Weekly

Day (if not daily) Friday

Notice (banking days) 3

Minimum investment 5,000,000

Minimum retail 5,000

Min. investment currency USD

Income Accumulative

Fees

Entry fee 0%

Exit fee 0%

Management fee 0.75%

Performance fee 10%

High water mark Yes

Crystallisation Quarterly

Hurdle rate Yes

Analysis

2010 return 10.69%

Annualised return 10.71%

Annualised volatility (monthly data) 6.43%

Sharpe ratio (2%) (monthly data) 1.35

Correlation to S&P 500 (monthly data) 84.22%

Correlation to iBoxx (monthly data) -38.38%

Service providers

Administrator J.P. Morgan Administration Services

Custodian J.P. Morgan Bank

Auditor KPMG

Lawyer Mason Hayes Curran

The Cheyne Convertibles Absolute Return UCITS III Fund is the latest product that offers investors access to Cheyne's 11-year track record in convertible bond management. The fund utilises convertible bonds plus effective hedge overlays to generate absolute returns. While Cheyne believes that selective unhedged convertibles can offer attractive risk-reward profiles, this fund also has the ability to hedge both equity and credit. In the hedged portion, it seeks to construct positions that are seen as "self funding", where convertible income more than compensates for hedging costs. This has the effect of creating a portfolio containing a field of attractive optionality.

While the portfolio consistently has a weighting to each strategy, the allocation between these strategies is opportunistically rebalanced. This dynamic approach also means that return drivers will vary according to market conditions. For instance, directionality drives returns in a rising market while, in more volatile markets, returns are driven more by the hedged portion of the fund. Credit risk is something that the fund will take selectively, based on the manager's long experience in credit analysis. As Europe's largest synthetic credit manager (with assets over \$50 billion), Cheyne's expertise includes investment-grade credit, event driven and real estate debt, supporting this assumption of credit risk by the fund. Portfolio manager Akin Akinloye has 16 years of convertible bond management experience, including the management of Cheyne's convertible bond funds from the firm's inception in 2000. Akinloye's history with Cheyne founders, Jonathan Lourie and Stuart Fiertz, extends even further back to 1994, when the trio worked together at Morgan Stanley. The UCITS III label seems almost semantic, since the superseded offshore fund followed the same strategy, operating with a profile in keeping with UCITS III broad regulations for its nine-year life. According to Akinloye, "The decision to offer the strategy in a UCITS wrapper was to enable the widest possible investor base access to Cheyne's convertible expertise". To answer asset class liquidity concerns, Akinloye says the "belly" of the \$600 billion convertibles market has ample liquidity for this strategy to accommodate a €600 million target for a capacity review.

Regarding risk management, Cheyne's own 150% cap on gross exposure is somewhat tighter than the 200% limit for "simple" UCITS. Empowering its risk management team with veto power and insisting they report to the board independently are further safeguards that go beyond the UCITS requirements. The fund's performance in 2010 was +10.7% and up to the end of March this year, the fund is up 4.4% in the base EUR class. USD and GBP classes are also available. Liquidity is provided fortnightly and additionally on the final business day of every month. **THFJ**