

Strategies for 2009

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Distressed Asian Convertible Bonds

Long only and unlevered

Closed end fund format

Asia has performing assets at distressed prices

Distressed investors, not distressed issuers

List of quasi sovereign issuers – which can later be hedged with sovereign CDS when counterparty risk is settled

Currently poor liquidity – market likely to return albeit smaller than before

Full exposure to credit default risk

Distressed Convertible Bonds

Long only and unlevered

Closed end fund format

Distressed investors purging convertible portfolios has created distressed pricing

Currently poor liquidity – market likely to return albeit smaller than before

Full exposure to credit default risk

Bond Basis

Long cash bond long credit protection through CDS

Closed end fund format

Wholesale deleveraging from cash bond investors has created arbitrage opportunity

Open to CDS counterparty default risk

Distressed Debt

Long biased

Closed end fund format

Recession has accelerated default rates

Technical selling pressure has created distressed pricing across performing and non performing assets

Capital Structure Arbitrage

Long Short

Closed end fund format

Technical selling has created arbitrage opportunities intra issuer

Long senior short sub – positive jump to default at low to non negative cost / no negative jump to default at positive carry

Capital Structure Arbitrage Distressed

Closed end fund format

Long short

Recession has accelerated default rates

Long fulcrum security – converts to equity

Short most senior non recoverable to hedge non-default spread duration

Trade finance

Open ended fund

Senior secured, over collateralized, liquid collateral, commodities or commoditized goods only

Acute shortage of capital has improved margins

Secondary market opportunities

Particularly attractive in emerging markets

Receivables finance

Open ended fund

Acute shortage of capital has improved margins

Shorter duration assets

Structured with limited recourse

Obligor / credit risk arbitrage

Deep value equity

Long biased / Long only

Open ended with lock up

Wholesale de-risking has created attractive valuations even under recessionary assumptions

Strategy variant: buy out (which would require either a closed end or long lock up fund)

Strategy variant: activist (financial restructuring)

Merger Arbitrage

Open ended with lock up

Value is available and there is a good proportion of corporates with cash

ROE and valuation differentials encourage cross border deals

Developed world acquirers, developing nation targets

Cross border skills required

Most of the above strategies would not survive a run on the fund situation and hence require a closed end structure. They are also vulnerable to mark to market divergence and thus should not be leveraged with a prime broker on standard terms. Many of these strategies could be leveraged if one could term finance the trade bundles and lock in financing rates.

Strategies I would be less inclined to recommend:

Convertible arbitrage – gamma or carry

Needs borrow that may be hard to get

Needs leverage that is hard to get

CBs are trading through their bond floors – no gamma

Risk Arbitrage – traditional in country

LBO deals are dead

There is no finance to leverage the large private equity buy out deals

Equity/Credit market neutral

Valuations not supportive of shorting

Broken business models in industries at risk of bailout

No liquidity in other shorts

Longer duration direct lending

Cyclical strategy – cash flow predictability is poor

Although spreads are highly attractive

Attractive only if it is the intention to acquire the collateral

Default rates likely to rise

Volatility – Long Biased

Long vega game is unlikely to continue to pay

Long gamma is opportunistic