

**Peer Group:**

Fund-of-Hedge-Funds

**Fund Manager/Adviser:**

Charles Hovenden (since launch)

Location: London

Launch Date: October 2001

Fund Size (August 2009):

US\$72m

**Group Contact No:**

+353 1 646 1410

**Website:**

www.absolutefund.co.uk

S&P ID Number: OS208593

Share class screened:

A

**INVESTMENT STYLE**

Region: Global

Strategy: Multi-Strategy

Further information on S&P's fund coverage can be found at

[www.FundsInsights.com](http://www.FundsInsights.com)

Performance Data Source - © 2009 Morningstar, Inc. All Rights Reserved. All statistical data on this report has been run to 31/08/2009 on NAV to NAV basis, with gross income reinvested, in USD.

**STANDARD & POOR'S OPINION (OCTOBER 2009)**

Absolute Fund Managers LLP is one of the few FOHF groups that have come through the liquidity crisis unscathed. It neither gated nor suspended investor withdrawals, and has not side-pocketed any investments. Moreover the notice period for withdrawals on the Absolute Fund has remained 35 days throughout.

We have rated the fund for a number of years now. Initially we were somewhat sceptical because of the lack of resources. It has only one portfolio manager, Charles Hovenden (the CIO and largest shareholder) and a head of marketing, Andrew Wheeler, and systems are limited to Excel spreadsheets and hard copy filing. However, each time we have interviewed Hovenden we have been impressed by his common sense and good judgement, and the past 18 months have shown that these attributes can be more important than highly sophisticated systems and a large team. In addition to maintaining full investor

liquidity the Absolute Fund showed only a single digit loss in 2008, which was better than nearly all other global multi-strategy funds. Moreover that was Hovenden's first loss in the last 10 years.

Absolute has proved that a one-manager operation can be effective, but we remain aware of key man risk. This is less of an issue for a fund-of-funds than a single hedge fund, but we still consider it material. A mitigating factor is that Andrew Wheeler, the group's head of marketing has seen two-thirds of the hedge fund managers included in the portfolio and, as a shareholder in the business, would have the knowledge and interest in ensuring an orderly wind down if anything happened to Hovenden.

We have the highest confidence in Hovenden as a manager of investors' money, and despite the key man risk we have decided to increase the Absolute Fund's rating to S&P AA.

**FUND MANAGER & TEAM**

London-based Absolute Fund Managers had about \$85m assets under management at the end of September 2009. Charles Hovenden (CIO) is the largest active stakeholder in the business. He is responsible for the group's investment management. Wheeler is the other active shareholder and is head of marketing. He has an investment background but concentrates on marketing and business management, leaving Hovenden free to focus on investment management.

During the review period there have been no further changes in the ownership breakdown. However, the legal structure changed from a company to a private limited partnership.

Charles Hovenden - chemistry (Oxford University), worked as a private client portfolio manager and equity analyst at Rothschild for seven years and Bank von Ernst for four years. In 1995 he joined Banque Internationale à Luxembourg as a fund-of-funds manager. He launched Absolute Fund Management in October 2001.

Andrew Wheeler - business studies (South Bank University), started as a private client fund manager with Fleming Investment management in 1986. From 1995 to 2001 he worked as multi-fund manager with Dexia Private Bank in Jersey. He was head of marketing at Deutsche Bank Private Banking, London, from 2001 to 2002. From 2003 to May 2007 he was executive director at the family investment office of Unigestion (UK) Limited. He joined Absolute Fund Management in June 2007.

## PORTFOLIO CHARACTERISTICS

Turnover ratio (%)	25
No. of holdings	38
% in top 10	30.9

## KEY HOLDINGS (31/08/09)

	%
Aristeia	6.3
Rockhampton	4.2
Harvest	3.1
Coast Value	3.0
ADM Galleus	2.9
Asian Debt	2.9
Odey European	2.8
Scottwood	2.8
Artradis Barracuda	2.7
Foxhill	2.6

\* In key holdings a year ago

## ALLOCATION BREAKDOWN (31/08/09)

	Fund %
Cash/net liabilities	10.8
Convertible arbitrage	7.7
Distressed	12.1
Fixed income arbitrage	8.2
Long/short equity	51.2
Other*	10.0

## PERFORMANCE STATISTICS (ANNUALISED)

	3 Years	5 Years
Fund	1.7	3.2
Index**	-4.3	4.0
Interest Rate <sup>^</sup>	3.9	3.8
R-Squared vs Index	0.4	0.4
Beta vs Index	0.1	0.1

<sup>^</sup> Citi USD 3m Eurodeposit USD!

\*\*S&P Global 1200!

## RISK STATISTICS

	5 Years
Standard deviation	3.7
Downside deviation	8.4
Maximum drawdown (%)	-9.6
Gaining months (%)	68.3
Sharpe ratio	-0.1
Sortino ratio	-0.2

## THE ABSOLUTE FUND



## MANAGEMENT STYLE

- The fund aims to preserve capital in all market conditions and achieve an annualised return of cash plus 4-6%. It focuses principally on long/short equities and arbitrage strategies, excluding CTAs and global macro funds because the team believes these strategies are difficult to analyse.

- Equity long/short is a significant allocation within the fund, but directionality is limited by only investing in funds that are no more than 30% net long and by always including an allocation to short-biased equity hedge and short-biased credit.

- The process combines top-down strategy allocation, subject to no more than 25% in any single strategy/region, with quantitative and qualitative fund selection (most added value). The team determines the macroeconomic view with input from hedge fund managers, external articles and sell-side research. If defensive, the allocation to managers with a short bias will increase.

- Fund selection starts with a quantitative screening. Attribution analysis is then undertaken to ensure that managers add value from shorting investments as well as

from going long. New ideas come from databases, prime brokers, third-party marketers and from the managers of existing holdings.

- Hovenden carries out onsite interviews with key team members and the track record is verified with the administrators or prime brokers. Start-ups are avoided and there is a preference for medium-sized hedge funds to ensure access can be gained with the manager rather than the investor relations team.

- The portfolio is diversified, with a target of around 40 equally weighted funds. A maximum of 5% is permitted in any one fund.

- There is ongoing monitoring of holdings including visiting at least annually. Fund managers are also telephoned between visits if there is exceptional performance or style drift. Sell disciplines include unexplained exceptional returns, lack of access to the manager and potentially better ideas.

- The fund has a 35-day notice period. Northern Trust provides a credit line to meet redemptions.

## PORTFOLIO & PERFORMANCE ANALYSIS (SEPTEMBER 2009)

As mentioned in the opinion the fund provided full liquidity to investors throughout the review period. As with other FOHFs, Absolute suffered continuous outflows during the second half of 2008. It also had to fund currency hedging losses on its dollar and euro share classes when sterling was declining last year. However, Hovenden raised about \$30m to fund redemptions and currency hedging losses and drew on on the fund's bridging facility with Northern Trust. At the peak funding requirement in December 2008 the portfolio was 10% overdrawn. Hovenden was able to raise money from fund sales because most of the portfolio's holdings were providing normal liquidity terms.

The fund was actually making money on its sterling class until the end of August 2008. All of the loss for 2008 took place in September (-2.7%) and October (-6.4%). In October the fund had its sole blow-up for the review period, when Hovenden had to write off the 2% held in Rosen. The hedge fund manager was unable to continue its option writing strategy after Merrill Lynch withdrew its offered trading limits, allegedly without giving the agreed notice. The fund's equity long/short holdings actually made money in September and October, and hence for the full year 2008. However, they have been held back during the year to date in 2009. This is because short sellers have suffered since April and many of the other holdings have been remained long defensives and short cyclicals for too long.

## DISCRETE PERFORMANCE (CALENDAR YEARS)

	2005	2006	2007	2008	YTD 31/08/2009
Fund	5.7	4.7	7.4	-9.2	5.4
Interest rate <sup>^</sup>	3.3	5.2	5.5	3.5	0.8

All of the views expressed in this research report accurately reflect our committee's views regarding any and all of the subject securities or issuers. No part of the committee's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. © [2009] The McGraw-Hill Companies, Ltd trading as Standard & Poor's ("S&P") 20 Canada Square, Canary Wharf, London, E14 5LH Tel: +44 (0)20-7176 3800. All rights reserved. No part of this publication shall be reproduced, stored in any retrieval system or transmitted in any form electronic or otherwise without the prior written consent of S&P. Any part of the publication by S&P of which this page is a part is made accessible subject to the terms and conditions which are accessible at the url address below ("S&P Terms") - by accessing and viewing this page and/or and pages associated with or attached to it you accept the S&P Terms. Go to <http://www.funds-info.standardandpoors.com> Performance Data Source - © 2009 Morningstar, Inc. All Rights Reserved. The performance information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.