The successful management of Convertible Bond portfolios depends on various factors such as:

- Asset allocation skills because of the wide divergence between returns of sectors and countries over certain periods.
- State-of-the-art models to keep up with the ever-increasing sophistication of the other market participants.
- Credit skills to assess the corporate bond-type credit risk.
- Relationships to investment banks for access to new issues and stock borrowing (CB arbitrage).
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Convertible Bonds are an asset class with risk-return characteristics that are superior to those of pure bonds, pure equities, or a blend of bonds and equities. They are instruments that are beneficial to both investors and issuers. The successful management of Convertible Bond portfolios depends on various factors such as asset allocation, security selection and credit skills, state-of-the-art models as well as good relationships to investment banks for access to new issues. In recent years, the Convertibles market has grown at an accelerated pace. More and more companies are willing to look at the advantages of financing through Convertibles, and they find good demand from various investors such as Hedge Funds, Convertible Bond funds of investment banks. We believe that this trend will continue and that this market will steadily gain significance in the future.

RMF INVESTMENT GROUP

RMF Investment Group is the leading provider of Alternative Investment Solutions, specialising in Hedge Funds, Leveraged Finance, Private Equity and Convertible Bonds. Focused on the institutional market, RMF’s target clients include pension funds, insurance companies, banks, large corporations and distribution channels. RMF’s headquarters is in Switzerland, however the Company also has physical presence in the major financial centres.

RMF commenced activities as an operating Hedge Fund Manager in 1992 with an exclusive mandate for one of the world’s most prestigious Market Neutral Hedge Funds. Over the years, RMF has continued to focus on servicing investors by providing comprehensive products and solutions and is regarded as an innovator in the Alternative Asset Management Industry.

In May 2002, RMF was acquired by the Man Group creating the largest independent Alternative Investment Manager in the market, with approximately USD 20 billion under management (including Real Estate and Private Equity). As of 30 June 2002 RMF had funds under management of approximately USD 5.5 billion.

RMF is a process driven organization, and one of the few organizations in the financial services industry to have achieved the ISO 9001: 2000 Certification for Quality Management Systems.

SUMMARY

In recent years, the Convertibles market has grown at an accelerated pace. More and more companies are willing to look at the advantages of financing through Convertibles, and they find good demand from various investors such as Hedge Funds, Convertible Bond funds of investment banks. We believe that this trend will continue and that this market will steadily gain significance in the future.

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Convertible Bonds (CBs) are fixed income instruments that can be converted into a fixed number of shares of the issuer at the option of the investor. Bonds that are convertible into shares other than the issuer’s are called exchangeable bonds.

Convertible Bonds are fascinating hybrid securities. On the one hand, they have the benefits of debt instruments that pay fixed coupon and will be redeemed at maturity at a par value. On the other hand, the embedded conversion option provides the investor with a participation in the upside potential of the underlying equity.

The conversion right provides the bondholder with a two-options choice. At maturity, the Convertible Bonds are worth the higher of (a) their redemption value (par value at maturity) and (b) the issuer’s share price. Similarly to straight debt, a Convertible contains the risk of the issuer not being able to repay the principal at maturity. This credit risk is expressed in the graph as the steep fall of the bond floor. If the bond will not decline to the same extent as the equity, the Convertible becomes more equity-like and the trader sells more shares. If it is possible to repeat this operation on several occasions, the trader will always be buying low and selling high.

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市场概况

The Convertible Bonds market has been growing over the last decade. The data indicate this trend will continue in the future as both companies and investors become more aware of the benefits of Convertible Bonds. The following map depicts the capitalisation of outstanding Convertible Bonds divided by geographic region (as of December 2001).

长于普通股的投资者需要出售部分股票，然后将股票转换为债券，这样就可以享受高收益。在收益率和风险分析中，高收益可以通过以下方式实现：

- **债券价格**
  - 债券的票面利率通常较高，但可能低于普通股。
  - 投资者可以选择部分出售债券，从而获得更高的收益。

- **股票价格**
  - 股票价格受市场影响，但通常高于债券。

- **股票股息**
  - 一般情况下，股票股息较高，但可能会受到市场波动的影响。

- **再投资率**
  - 再投资率取决于市场情况，可能会受到市场波动的影响。

市场参与者

- **长期投资者**：通过投资于债券而非普通股，这些投资者可以获得更高的回报。

- **短期投资者**：通过出售债券，这些投资者可以获得短期收益。

- **债券发行人**：通过发行债券，这些公司可以获得长期资金。

- **基金经理**：通过投资于债券，这些基金经理可以获得长期收益。

- **债券交易员**：通过买卖债券，这些交易员可以获得差价收益。

- **债券承销商**：通过承销债券，这些承销商可以获得手续费收入。

- **债券评级机构**：通过提供债券评级，这些机构可以获得评级费用收入。

- **债券投资者**：通过投资于债券，这些投资者可以获得长期收益。
Convertible Bonds (CBs) are fixed income instruments that can be converted into a fixed number of shares of the issuer at the option of the investor. Bonds that are convertible into shares other than the issuer’s are called exchangeable bonds.

Convertible are fascinating hybrid securities. On the one hand, they have the benefits of debt instruments that pay fixed coupons and will be redeemed at maturity at a pre-specified price. On the other hand, they offer the upside potential of the underlying equity.

The conversion right provides the holder with a between two choices option. At maturity, the Convertible Bonds are worth the higher of (i) their redemption value (the price at which the issuer agreed to buy the bonds back) or (ii) the market value of the underlying shares.

In other words, a Convertible Bond is a straight bond with an embedded equity call option. Due to this call option, the Convertible will participate in any increase in the underlying equity, while the fixed income portion provides capital protection, should the share price fall.

The x-axis displays the underlying share price while the y-axis represents the price of the Convertible. The yellow line outlines the Convertible’s fair value. If the share price falls, the CB becomes more bond-like and declines in price. CB arbitrage is a typical Hedge Fund strategy. The arbitrageur is long a Convertible and short the corresponding stock.

The chart depicts the historical behaviour and risk profile of Convertible Bonds. The following map depicts the capitalisation of outstanding Convertible Bonds.

Market data indicate the advantage of investing in Convertible Bonds as compared to fixed income instruments and equities. The chart depicts the efficient frontier of investing in bonds, equities and Convertible Bonds. The payoff of Convertible Bonds surpasses the returns achieved by either pure bonds or equities.

The Convertible Bonds markets have been growing over the last decade. The data indicate this trend will continue in the future as both companies and investors become more aware of the benefits of Convertible Bonds. The following map depicts the capitalisation of outstanding Convertible Bonds divided by geographic region (as of December 2001).

In the long run, Convertible Bonds have outperformed pure equity pure bond portfolios. The studies further show that CBs call rights are the key movements of the share prices without the corresponding volatility.

Convertible Bonds can outperform pure equity pure bond portfolios. It is crucial to note that CBs do not require a premium to parity. Deep in-the-money Convertible Bonds will almost certainly be converted into the underlying share at maturity.

Convertible Instruments

Yield Instrument (out-of-the-money) Convertible Bonds where the underlying share price trades significantly below the conversion price have low equity sensitivity and behave like fixed income securities. The main price drivers are the interest rate level and the issuer’s credit spread.

Yield Instrument (in-the-money) Convertible Bonds where the underlying share price trades close to the conversion price are considered balanced Convertibles because of their asymmetric payoff profile. They have a medium sensitivity to changes in the underlying equity. These bonds are affected by the share price performance and volatility movements as well as changes in interest rates and the issuer’s credit profile.

Yield Instrument (deep-in-the-money) Bond Floor where the underlying share price trades significantly below the conversion price. Convertible Bonds can replicate the upside without the corresponding volatility.

Convertible Instruments

Price Behaviour of Convertibles

Global Performance across Asset Classes

Efficient Frontier

Market Participants

Long-only investors including dedicated CB Funds

The strategy is to generate above average returns via capital gains and interest income while enjoying downside protection and lower volatility. Studies show that Convertible Bond portfolios have outperformed traditional portfolios (50% bonds and 50% equities) on a global basis. In 1993 to 2000, they even outperformed pure equity portfolios (CBs returned 9.92% p.a., while equities returned 9.07% p.a.) (study by Jefferies).

Hedge Funds

CB arbitrage is a typical Hedge Fund strategy. The arbitrageur is long a Convertible and short the underlying share according to the CB sensitivity to its underlying share. In order to execute the Convertible’s ‘cheaper’. If the share price falls, the CB becomes more bond-like and declines less than the share price, so the trader benefits from both, some share, if the share price rises, the Convertible becomes more equity-like and the trader sells more shares. It is possible to repeat this operation on several occasions, the trader will always be buying low and selling high.

Equity investors

As an equity investor need not wait until股价, instead, they can lock in the upside and convert the Convertible Bonds to the corresponding equity. This way, the investor could also take advantage of the CBs offering a dividend, at a discount to parity.

Fixed income investors

Fixed income investors tend to buy out-of-the-money CBs that are trading with yields close to the dividend yield. Furthermore, they enjoy the benefit of the embedded call option.
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The conversion right provides the bondholder with a better-than-two-choice option. At maturity, the Convertible Bonds are worth the highest of three redemption values: the value at which the issuer had agreed to buy the bonds back or the market value of the underlying shares.

In other words, a Convertible Bond is a straight bond with an embedded equity call option. Due to this call option, the Convertible will participate in any increases in the underlying equity, while its fixed income portion provides capital protection, should the share price fall.

Convertible price is the underlying share price while the y-axis represents the price of the Convertible Bond. The dotted diagonal expresses the intrinsic value called parity. Parity represents the fixed income portion provides capital protection, should the share price fall.

Long-only investors including dedicated CB Funds

The strategy is to generate above average returns via capital gains and interest income while enjoying downside protection and lower volatility. Studies show that Convertible Bond portfolios have outperformed traditional portfolios (50% bonds and 50% equities) on a global basis from 1990 to 2001. CBs have outperformed pure equity portfolios (in CBs by 9.5% p.a., while equities returned 10.1% p.a. (study by Merrill Lynch).

CB arbitrage is a typical Hedge Fund strategy. The arbitrageur is long a Convertible and short the underlying share according to the CB’s sensitivity to its underlying (delta), in order to extract the Convertible’s ‘cheaper’. If the share price falls, the CB becomes more in-the-money, so the trader buys back some shares. Similarly, if the share price rises, the Convertible becomes more out-of-the-money, and the trader sells more shares. It is possible to repeat this operation on several occasions, the trader will do so long as the terms and selling price are on the right side of the ‘cheaper’.

Equity investors

As an alternative to shorting or selling upsides, their strategy would be to buy deep-to-the-money CBs. They could often protect an income advantage as the coupon yields are typically higher than the share price, so the trade looks like a bond, albeit a risky one. The credit risk of Convertible Bonds is very low, with the largest risk being equity and/or pure bond portfolio. The Convertible Bond Market has been growing over the last decade. The data indicates this trend will continue in the future as both companies and investors become more aware of the benefits of Convertible Bonds. The following map depicts the capitalization of Convertible Bond divided by geographic region (as of December 2001).
The successful management of Convertible Bond portfolios depends on various factors such as:

- Asset allocation skills because of the wide divergence between returns of sectors and countries over certain periods.
- State-of-the-art models to keep up with the ever increasing sophistication of the other market participants.
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Convertible Bonds are an asset class with risk-return characteristics that are superior to those of pure bonds, pure equities, or a blend of bonds and equities.

The following factors are critical for the success of a Convertible Bond investor:

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