CELLYANT
Capital Management

Philosophy

The Cellyant Convergence Fund is a leveraged non-directional **Security Financing Arbitrage Fund**. The fund aims at delivering absolute performance through the implementation of delta / gamma neutral arbitrage strategies designed:

- To take advantage of unjustified price differences between convergent financial instruments; and
- To unveil and capture price discrepancies in the implied repo and financing rates across a wide diversity of derivatives products.

Considering its exposure and sensitivity to market movements, the Cellyant Convergence Fund intends to offer investors the asymmetric risk / reward profile of a **Dynamic Money Market Fund**.

Portfolio manager

Nicolas HAMAR

Strategy highlights

Security Financing
Delta neutral
Absolute performance

Key features

Regulated AIF
Professional investors only
AIFM: Fuchs Asset Management

Strategies

Core strategies

Mechanical Convergence

Theoretical Basis
Consisting in going concurrently long and short in two different maturities on the same underlying asset, preferably by using listed derivatives.

New shares vs. Old shares
Consisting in simultaneously buying the new share (not entitled to dividend) and selling the old (ordinary share).

Scrips
Consisting in acquiring the optional right to dividend and hedging it by selling ordinary shares.

Subscription rights
Consisting in arbitraging the ordinary shares vs. the preferential rights.

Dependencies

While the profitability of core strategies is mostly dictated by access to cheap / stable borrows and financing, partnerships with counterparties secure appropriate financing / sourcing solutions.

Allocation

Capital / limits are allocated between strategies depending on market conditions and expected profitability. Precedence is given to fully hedged transactions and trades unwinding a pre-existing position.

Ancillary strategies

Servicing

Financing / Sourcing
Consisting in organising access to cash and securities through listed or OTC derivatives, for the Fund own purposes or to the benefit of selected counterparties. May involve "collateral upgrade" strategies (e.g. borrowing debt securities to (re)finance Equity positions).

Facilitation / Transformation
Consisting in interposing the Fund book between two counterparties with a view to facilitating a transaction by potentially transforming it (e.g. borrowing stocks under a repo agreement and lend them via a buy / sell-back transaction).

Position optimisation
Consisting in offering cash / securities optimisation strategies to selected counterparties with a view to refinancing their positions, investing cash or optimising the pay-off of certain corporate actions (e.g. scrips).

ONE SINGLE PORTFOLIO

Positions resulting of both streams are aggregated and managed as a single book. This approach is the ultimate guarantee that:

- The Fund can act as market maker in a large variety of financial instruments,
- All optimisations are performed in a given situation,
- Partnerships with counterparties are handled in a way to secure their long-term profitability.

IMPORTANT

The Cellyant Convergence Fund has been designed for **professional clients and duly skilled investment professionals only. This document shall not be distributed to retail investors or investors that could not elect to be treated as professional as per Annex II of the EU MIF Directive (2014/65 of May 15th, 2014).** As a marketing communication, this **document does not provide enough material to found a properly informed investment decision**. Clients interested in investing in the fund should get acquainted with the fund prospectus and / or contact Cellyant directly.

Key performance drivers and potential drawdowns

Security financing arbitrage is fuelled by the **heterogeneity of financing curves** implied in each derivative transaction. Spot and term transactions being asymmetrical by nature, the term structure existing in cash or fixed income instruments can also be unveiled in equivalent equity-based instruments. However, the market profile of equity-based repo / stock loans exhibits a **specific risk / reward profile**, fundamentally different from the one usually encountered in bonds or money markets: besides a typical interest rate / FX sensitivity, equity borrowing / lending costs are largely affected by the **short interest**, the occurrence of **corporate actions** (dividends, capital increase, etc.) as well as the **credit and tax situations** of counterparties.

Cellyant proprietary market analysis and execution routines are designed to take advantage of:

- **The increased asymmetry** of equity-related spot and term transactions,
- **The particular financing structure** of equity-based repo and securities lending markets,
- **The fragmentation** of the security financing market, as evidenced by the diversity of counterparties and structuring solutions.

Strategy	Causes of asymmetry / Sources of return		Potential drawdowns	
	Description	Est. (yearly min)	Description	Est. (yearly max)
Theoretical basis	• Dividends and repo rates are the most common source of asymmetry on short-term transactions. • The relative tax treatment of counterparties (withholding / financial transaction tax) may offer a competitive edge on some trades.	8%	• Interest rate / FX (if not hedged) • Operational risk • Recall of borrow (if any) • "Black swan" (BP / Deepwater Horizon case: non-payment of an announced and detached dividend)	3%
New vs. old shares	• Rate and stability of borrows are critical. • Convictions on the anticipated dividend are necessary.	3%	• Dividend risk (if not hedged) • Operational risk • Counterparty / Credit risk	1%
Scrips	• Election of shares in lieu of dividend gives right to a discount on the share price (up to 10% in France).	8%	• Recall / Re-rate of hard-to-borrow • Counterparty / credit risk • Operational risk	5%
Subscription rights	• Capital increase naturally feeds the short interest.	12%		7%
Financing / sourcing	• Optimisations linked to collateral upgrade and use of ADRs in lieu of ordinary shares.	2%	• Counterparty / Credit risk • Operational risk	1%
Facilitation / transformation	• Margin captured by the Fund as arranger of the transaction.			
Position optimisation				

Overall yearly gross performance 10%

Performances indicated per strategy have been assessed based on market conditions in 2014 and making the assumption that Cellyant Convergence Fund would work with limited leverage. However, the multiplication of Servicing / Facilitation deals could largely increase the fund performance (subject to risks inherent to these trades).

Overall yearly est. max drawdown 2%

The main source of drawdown rests in events forcing the Fund to early-unwind a position (counterparty default, cash constraint, re-rating / recall of a borrowed position, etc.). In such cases, potential drawdowns can appear due to the evolution of money or securities lending markets. For the purpose of this estimate, exceptional events such as major credit events, tax re-characterisation or major operational problems have been neglected.

Further Information

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