

## Beyond traditional convertible arbitrage



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Fund Manager

David joined Polar Capital in October 2010 to establish the Global Convertible Team.



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Head of Credit & Convertible Research

Jake joined Polar Capital in October 2013 to work with the Global Convertible Team.

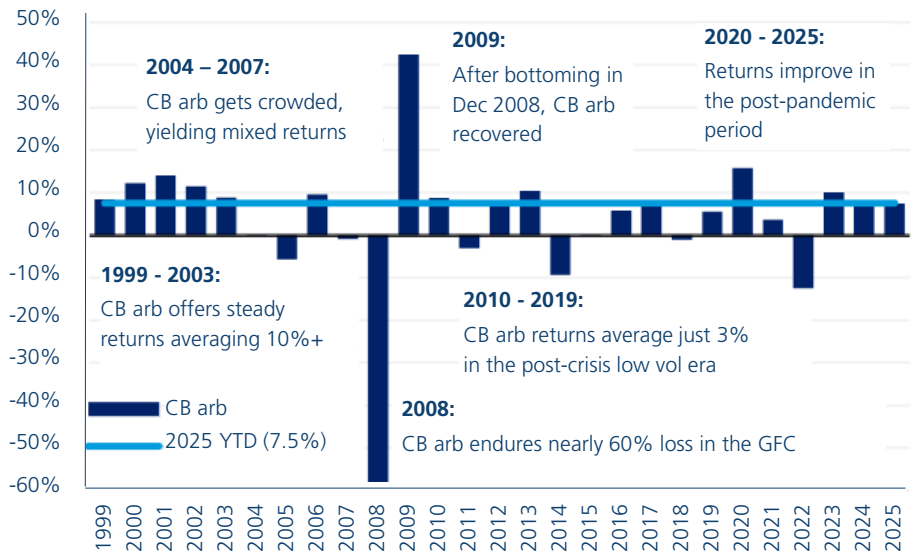


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Michael joined Polar Capital in July 2022 to work with the Global Convertible Team.

For much of the post-global financial crisis (GFC) era, investors operated in an environment defined by extraordinary monetary intervention. Quantitative easing reduced rates, compressed credit spreads, suppressed realised volatility and created an unusually stable backdrop for both equity and fixed income markets.

### Convertible arbitrage performance history



Source: BofA Global Research, Hedge Fund Research Inc. Data as of 6 August 2025.

For convertible arbitrage strategies, this mattered. The strategy relies upon the interaction between equity volatility, credit spreads and the value of the conversion option. When central bank liquidity effectively reduces equity volatility and dampens market dispersion, the opportunity set for arbitrage narrows materially.

That dynamic persisted for more than a decade, but the market environment today looks materially different.

### Awards & ratings



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For disclosure and detailed information about this fund please request the full Morningstar Managed Investment Report from [investor-relations@polarcapitalfunds.com](mailto:investor-relations@polarcapitalfunds.com).

FE Alpha Manager Ratings do not constitute investment advice offered by FE and should not be used as the sole basis for making any investment decision. Rating representative of the Polar Capital Global Absolute Return Fund.

Source & Copyright: CITYWIRE. David Keetley and Stephen McCormick have been awarded an AA rating by Citywire for his 3 year risk-adjusted performance for the period 31/03/2023 - 31/03/2026.

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With inflation re-emerging after the pandemic and interest rates normalising, equity volatility has returned to levels more consistent with historical averages. Rather than the artificially subdued conditions of the QE era, markets are increasingly characterised by greater dispersion between winners and losers, more frequent dislocations and a higher cost of capital.

For convertible arbitrage, these are important developments.

### Why volatility matters again

Convertible arbitrage fundamentally seeks to exploit the pricing inefficiencies embedded within convertible securities – instruments that combine characteristics of both equity and credit. The strategy typically involves owning the convertible bond while dynamically hedging the associated equity exposure.

In low-volatility environments, the value of that optionality diminishes. Equity hedges become less effective at generating trading profits and spreads between implied and realised volatility compress. The result is often lower return potential across the strategy.

By contrast, periods of more normalised or elevated volatility tend to improve the opportunity set significantly. Greater market dispersion increases the value of active hedging and creates more frequent pricing dislocations between convertibles, equities and credit instruments.

Importantly, the current environment is not simply about higher volatility in isolation. The end of ultra-cheap capital has also reintroduced more fundamental differentiation between companies and sectors. In many respects, markets are behaving more like they did prior to the GFC, an environment in which convertible arbitrage historically delivered some of its strongest risk-adjusted returns.

### Beyond traditional convertible arbitrage

Historically, many funds generated returns primarily through equity-hedged convertible exposure (gamma trading) combined with substantial leverage. Prior to the GFC, leverage levels of 500% were not uncommon, with some strategies operating materially above that level. While leverage across the industry has reduced since then, many strategies still rely heavily on financing conditions remaining benign.

The experience of 2008 demonstrated the vulnerability of that model. Excessive leverage amplified losses precisely when liquidity deteriorated and market dislocations created the most attractive opportunities.

That distinction remains highly relevant today.

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Markets are increasingly characterised by greater dispersion between winners and losers, more frequent dislocations and a higher cost of capital



The result is a portfolio construction framework intended to adapt across changing market conditions rather than assume they remain constant

The Polar Capital Global Absolute Return Fund was designed around a broader objective: to generate good, consistent returns with superior capital protection and low correlation across different market environments rather than relying on a single volatility regime or financing environment.

Consequently, instead of focusing solely on traditional gamma trading, capital is dynamically allocated across five distinct investment categories:

- **Equity Hedged Convertibles:** designed for periods of normalised or elevated volatility
- **Asymmetric Profiles:** intended to perform in upward-trending, lower volatility markets
- **Put Profiles:** structured to benefit from falling equity markets and periods of stress
- **Income/Defensive:** focused on opportunities where credit dislocations create unusually attractive yields
- **Convertible Call Writing:** seeking to monetise theta decay and volatility arbitrage opportunistically

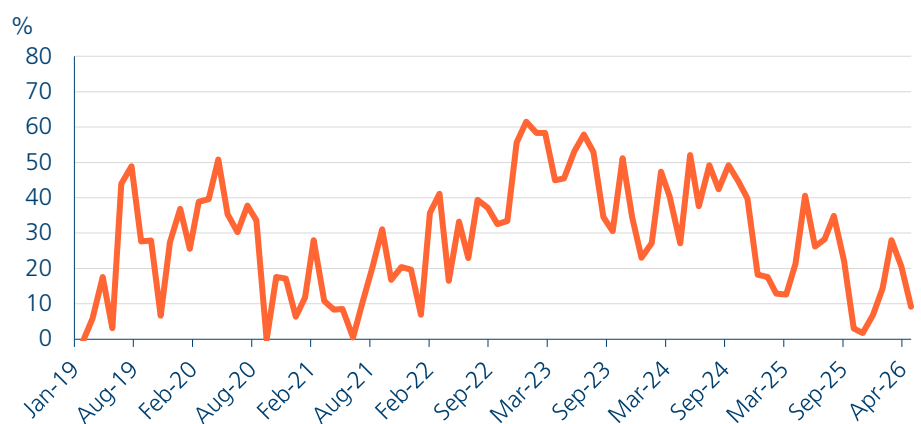
The result is a portfolio construction framework intended to adapt across changing market conditions rather than assume they remain constant.

### The importance of leverage discipline

While leverage can enhance returns in stable markets, it can also reduce flexibility precisely when opportunities become most compelling. The ability to deploy capital during periods of stress can depend more on the extent of leverage used prior to that point than some valuation insight.

The Fund has therefore been managed with materially lower leverage than is typical across much of the convertible arbitrage universe. Since inception, leverage has generally remained within a 0-50% range.

### Fund leverage (LMV/AUM)



Source: Polar Capital, April 2026.

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That conservative approach is not simply about reducing downside risk. It is also intended to preserve optionality during periods of market dislocation.

Historically, some of the most attractive opportunities in convertible markets have emerged during periods of forced selling. Managers with constrained balance sheets are often unable to capitalise on those opportunities, while less levered strategies retain the flexibility to deploy capital selectively.

This dynamic was evident during the GFC, during the market dislocations of 2020 and again during the sharp repricing across fixed income markets in 2022, when higher interest rates created unusually attractive yields in non-distressed convertible securities.

### **A structurally different market environment for arbitrage strategies**

The broader market regime may now be shifting in favour of more active and flexible absolute return strategies.

The era of structurally suppressed volatility appears to have ended. Higher rates, greater macro uncertainty, geopolitical fragmentation and higher equity volatility are all contributing to a market environment with greater dispersion and more frequent repricing events.

For convertible arbitrage, that matters because volatility itself is not inherently negative. In many cases, it is the raw material from which opportunity is created.

Equally, the lessons of the past two decades remain important. Strategies built around excessive leverage and narrow market assumptions may struggle when conditions change abruptly.

In that context, the emphasis increasingly shifts toward adaptability, risk management and the ability to allocate dynamically across different opportunity sets.

For investors seeking absolute return strategies capable of navigating a less stable market regime, those characteristics may prove increasingly valuable in the years ahead.

### **Polar Capital Global Convertible Team**




**01 June 2026**

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The team at Polar Capital manage two convertible funds, each with different objectives and risk profiles.




## Polar Capital Global Convertible Fund

- This is a long-only convertible fund seeking to generate capital appreciation through investing in the global convertible markets, together with income generation and capital protection
- The Fund was established in 2013 and is still managed by the original founding portfolio managers
- Top quartile performance since inception<sup>1</sup>
- The Fund has delivered more upside and participated in less downside than its benchmark
- Additionally, the Fund has delivered superior income compared to its benchmark
- **12-month Fund return 30.58%<sup>2</sup>**

 Growth	 Income	 Protection
<p><b>Target asymmetric, convex returns</b></p> <p>Identify clear upside catalysts</p> <p>Invest only when risk-adjusted returns are attractive</p>	<p><b>Target 5% Distribution Yield<sup>3</sup></b></p> <p>Seek income without over-reaching</p> <p>Invest globally; geography and benchmark agnostic</p>	<p><b>Clear focus on limiting drawdowns</b></p> <p>Macro level: robust portfolio stress testing</p> <p>Micro level: detailed fundamental credit analysis</p>

## Polar Capital Global Absolute Return Fund

- This is an absolute return-seeking fund, targeting returns of c8-12% with volatility of returns of c6%
- The Fund was established in 2018 and is still managed by the original founding portfolio managers based in London and Rhode Island
- The Fund has never had a loss-making year and builds upon the track record of the ALVA Convertible Arbitrage fund managed by the same team
- Taken together, the Absolute Return and ALVA funds have an enviable 14-year track record of generating excellent risk-adjusted returns, **while never suffering any loss-making calendar years<sup>4</sup>**
- **12-month Fund return 14.45%<sup>2</sup>**

 Growth	 Income	 Protection
<p><b>Return target 8-12%</b></p> <p><b>Volatility target 6%</b></p> <p>Identify clear return catalysts and target asymmetric returns</p>	<p><b>Target 5% Distribution Yield<sup>3</sup></b></p> <p>Buffer created to smooth distributions</p>	<p><b>Clear focus on limiting drawdowns</b></p> <p>Low levels of correlation with other asset classes</p> <p>Low Equity exposure</p>

1. Source: Lipper Global: Bond Convertibles - Global; USD I Acc Share Class; as at 30 April 2026.

2. Polar Capital, as at 30 April 2026. USD I Acc Share Class.

3. Please note that this is the target yield as of 30 April 2026, it is not a guaranteed yield and it is subject to change in the future.

4. Since inception (31 December 2018) the USD I Acc Share Class has delivered positive returns each calendar year.

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### Risks

- **Capital is at risk and there is no guarantee the Fund will achieve its objective. Investors should make sure their attitude towards risk is aligned with the risk profile of the Fund before investing.**
- **Past performance is not a reliable guide to future performance. The value of investments may go down as well as up and you might get back less than you originally invested as there is no guarantee in place.**
- The value of a fund's assets may be affected by uncertainties such as international political developments, market sentiment, economic conditions, changes in government policies, restrictions on foreign investment and currency repatriation, currency fluctuations and other developments in the laws and regulations of countries in which investment may be made. Please see the Fund's Prospectus for details of all risks.
- The fund is exposed to Sustainability risks which are environmental, social and governance factors that could have an actual or potential material negative impact on the value of the Fund and its risk factors.
- The Fund invests in equities, convertible and fixed income securities and prices can rise or fall due to several factors affecting global stock markets.
- The Fund uses derivatives which carry the risk of reduced liquidity, substantial loss, and increased volatility in adverse market conditions, such as failure amongst market participants. The use of derivatives will result in the Fund being leveraged (where market exposure and the potential for loss exceeds the amount the Fund has invested) and in these market conditions the effect of leverage will magnify losses. The Fund makes extensive use of derivatives.
- The Fund invests in assets denominated in currencies other than the Fund's base currency. Changes in exchange rates may have a negative impact on the Fund's investments. If the share class currency is different from the currency of the country in which you reside, exchange rate fluctuations may affect your returns when converted into your local currency. Hedged share classes may have associated costs which may impact the performance of your investment.
- There may be times where the issuer or guarantor of a fixed income (or convertible) security cannot meet its payment obligations or has their credit rating downgraded, resulting in potential losses for the Fund.
- The Fund invests in emerging markets where there is a greater risk of volatility due to political and economic uncertainties, restrictions on foreign investment, currency repatriation and currency fluctuations. Developing markets are typically less liquid which may result in large price movements to the Fund.

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A decision may be taken at any time to terminate the marketing of the Fund in any EEA Member State in which it is currently marketed. Shareholders in the affected EEA Member State will be given notification of any decision and provided the opportunity to redeem their interests in the Fund, free of any charges or deductions, for at least 30 working days from the date of the notification.

Investment in the Fund is an investment in the shares of the Fund and not in the underlying investments of the Fund. Further information about fund characteristics and any associated risks can be found in the Fund's Key Information Document or Key Investor Information Document ("KID" or "KIID"), the Prospectus (and relevant Fund Supplement), the Articles of Association and the Annual and Semi-Annual Reports. Please refer to these documents before making any final investment decisions. These documents are available free of charge at Polar Capital Funds plc, Georges Court, 54-62 Townsend Street, Dublin 2, Ireland, via email by contacting Investor-Relations@polarcapitalfunds.com or at [www.polarcapital.co.uk](http://www.polarcapital.co.uk). The KID is available in the languages of all EEA member states in which the Fund is registered for sale; the Prospectus, Annual and Semi-Annual Reports and KIID are available in English.

The Fund promotes, among other characteristics, environmental or social characteristics and is classified as an Article 8 fund under the EU's Sustainable Finance Disclosure Regulation (SFDR). For more information, please see the Prospectus and relevant Fund Supplement.

ESG and sustainability characteristics are further detailed on the investment manager's website: - <https://www.polarcapital.co.uk/ESG-and-Sustainability/Responsible-Investing/>.

A summary of investor rights associated with investment in the Fund can be found [here](#).

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