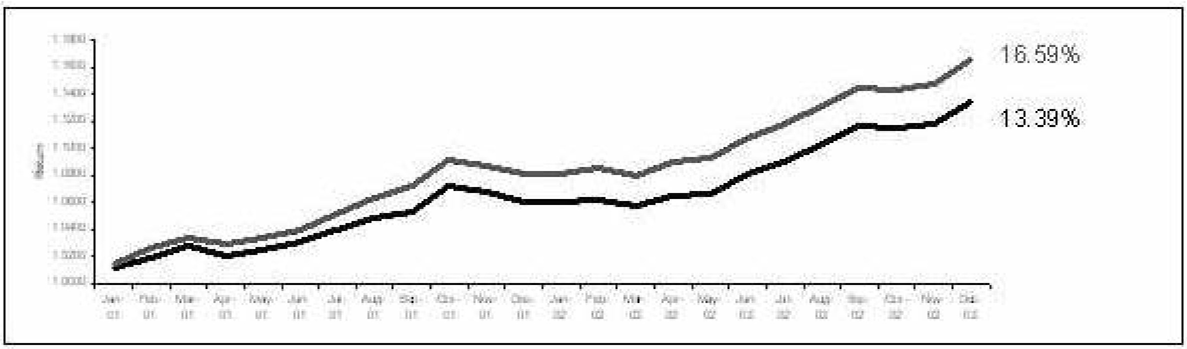
Global Fixed Income Partners, LLC

Talent
Skill**Results**
Commitment

Providing Real Money and Hedged Management in Global Fixed Income using an eclectic investment style including quantitative, qualitative and macro approaches. Diversification and targeted information ratio management (TIRO©) account for low tracking error and superior information ratios.

- Over $50mm real money accounts under management
- Two-year outstanding track record (**GFIP team** vs. **Index***)



- Offering separate account management
- And our Dublin registered (off-shore) *Forum Global Fixed Income Fund* ©

The Exciting Opportunity to Invest in High Quality International Bonds...

...*The Forum Global Fixed Income Fund* [1]

Investing in a fund of international government bonds[2] leads to several questions and considerations regarding currency. It turns out that such issues are less problematic and even favorable to the domestic investor. The technique of currency hedging allows us to guarantee, in advance, that currency fluctuations, in either positive or negative directions will not affect bond values. Moreover, to do this we must hedge the foreign yield into the domestic yield. This generally adjusts the realized foreign yield much closer to the domestic yield. Once adjusted there is no effect due to currency! However superior international bond performance, higher risk rating and risk reducing diversification effects are preserved. We discuss these issues on the following pages.

[1] Sub-advised by *Global Fixed Income Partners, LLC.*
[2] Eligible countries include US, UK, Euro-Countries, Canada, Japan, New Zealand, Australia & Switzerland.

*Investment results are AIMR compliant versus Salomon Brothers World Government Bond Index, xUS, USD-Hedged. Past performance is no guarantee of future success. Global fixed income investment may involve foreign currency investment which may induce additional volatily.

The Impact of Currency on Your Investment

The example below shows how we can negate the effect of currency and thereby translate international currency based returns into domestic currency based returns without risk (of currency effects).

Suppose that you are a Cypriot investor and your €-denominated bond, worth €100, has a 7% yield. The 12-month rate for €-debt is 3%. The 12-month rate for C£-debt is 4.5%. Assume the C£/€ rate is 1.7.

	Action	Today	Next Year	Effect
1.	Bond value	€100	€107	+7%
2.	Borrow	(€104)	(€107)	-3%
3.	Exchange	€104 → C£176.8		
4.	Invest	C£176.7	C£184.6	+4.5%
5.	€-Exposure	0	0	
6.	C£-Earnings	0 (from initial C£170)	C£14.6	+8.5%

This proves that relative to any domestic currency, hedging will achieve a (domestic) currency hedged yield (CHY) equal to the foreign currency yield plus the difference between the foreign and domestic short-term rates:

$$\text{CHY} = Y_{foreign} - \text{Short Rate}_{foreign} + \text{Short Rate}_{domestic}$$

$$= Y_{foreign} + \text{Currency Carry}$$

In practice the hedge is placed more frequently than yearly, typically monthly or quarterly, and applies the corresponding short-term rates. This also insures that fluctuation in domestic government bond yields is quickly replicated through hedging.

Superior Bond Performance

Interest rates may go up and down, and consequently bonds may decrease and increase in value. In fact, the effect of changes in yield is usually more dramatic than the return of yield alone. For instance, a 5% yield 5-year maturity will go from a value of C£100 to about C£92 if yields rise to 7%[3]. The extra 2% per year or C£2 over the year will not compensate for the immediate loss of C£8. International interest rates fluctuate too, though generally not as much as Cypriot rates. This due to two factors: 1) the general volatility (risk) of highest quality international government bonds is lower than that of Cyprus government bonds, and 2) there is diversification (especially across economic environments) of the various countries and that reduces the volatility.

On a passive basis, that is if an investor simply invests in a (high quality) world government bond index[4] hedged into the local currency, they should expect better risk/return performance versus holding Cyprus government bonds alone. However on an active basis, that is with a superior investment manager, the risk profile of this asset class should be preserved while the return performance can be significantly enhanced. That is because the variety of interest rate environments, and predictable interest rate relationships across countries provides fertile investment opportunities. Even if interest rates are expected to rise, the relative rate of rising amongst countries can be exploited to provide positive returns. Our multiple investment techniques and approaches, our research, and the models we use to add value are discussed in additional documents or on our website.

[3] If yields rise, a bond, which typically pays a fixed rate of interest, becomes relatively less attractive and therefore drops in price. The inverse relationship between the change in yield and the resulting change in bond price is called 'duration.'

[4] Two examples are the Salomon Brothers World Government Bond Index (SB-WGBI) and the JP Morgan Global Bond Index (JP-GBI).

Superior Fund Performance

Our performance, which is detailed in additional documents or on our website, is summarized in the table below.

	2001	2002
C£ hedge (average)	2.00%	2.70%
Index (SB-WGBI)	6.12%	6.85%
GFIP Out-performance	2.01%	0.99%
Total Return in C£	10.13%	10.54%

Consistency is also a hallmark of this fund. During the 25-month period that the Bank of America International Bond Portfolio fund existed (the precursor to the Forum Global Fixed Income Fund), the fund outperformed the index in 21 of the 25 months..

How does a Global Fixed Income Portfolio fit in an Cyprus Government Bond oriented portfolio… and how much as a percentage of the portfolio?

Typically an investor in a fund of local government bonds is implicitly or explicitly trying to match a liability stream (or other obligations) denominated in the local currency and subject to local interest rates. That is one attraction for holding a large amount of domestic government bond – and it is a good reason. However, to the extent that foreign interest rates impact the domestic interest rates it is a good idea to have some exposure to such rates. Investors with some exposure to US bonds as the High-Tech US industry declined dramatically would have had a natural hedge and thus offset their losses.

In addition, it is always worthwhile to diversify portfolio holdings, especially with assets that have such an attractive return-to-risk ratio as do high quality international bonds. And especially, when currency effects can be eliminated.

We recommend that an Cypriot bond manager managing their fixed income exposure with Cyprus government bonds consider allocating up 20-25% of their bonds to non-Cyprus high quality government bonds hedged into C£. This offers increased diversification and investment opportunities while still reducing overall risk.

A final note on yield advantage as distinct from currency…

When evaluating bonds of different currencies it is important to be able to separate the part of bond value due to currency and that due to the interest rate environment in the country. Only then can one see what is the real exposure of the bonds and of currency within their portfolio. For instance, an NIS investor may receive a higher yield than a USD investor, but what part of that yield is due to currency and what part is due to the interest rate environment, both current and anticipated. We may not be able to say whether that exposure is attractive or not, but it is important to differentiate between exposures in order to be able to consider these critical issues. An example below will illustrate the point.

Consider the following yields on US and EURO (German) government bonds, and corresponding short-term rates, as of the end of last year.

As of 12/31/02	3-month yield	10-year yield	10-year increase over 3-month
US	1.35%	3.80%	2.45%
EURO (Germany)	2.85%	4.20%	1.35%
EURO $CHY		2.70%	

The first two rows of the table indicate the yields of 3-month LIBOR and EURIBOR bonds, and of 10-year EURO (Germany) and 10-year US government bonds. The third row gives the currency hedged yield (CHY) — the yield on the EURO bond when currency effects are neutralized (in this case versus USD). At first the EURO yield at 4.2% looks more attractive than the US yield at 3.8%. After currency is neutralized, the yield on the US bond is much more attractive at 3.8% rather than the currency hedged EURO bond at 2.7%. It turns out that the excess yield in EURO is due to the currency carry of the EURO and can be considered essentially a premium associated with taking on EURO currency risk. In fact, the currency carry for the EURO is 1.5% indicating a forward value for EURO currency to decline versus the USD.

Another observation is that extending lending from 3-month to 10 years[5] earns 2.45% for US bonds and only 1.35% for EURO bonds. This reflects the market's anticipation that it is much more likely for US 10-year yields to rise than for analogous EURO 10-year yields to rise. Since rising rates decrease bond values, a higher yield must be paid to induce investors to hold US bonds. This is seen more easily when comparing US yields to EURO yields on a CHY-basis, or 3.8% versus 2.7%. Once the true risk exposures and their compensations are clarified, the bond investment manager can make more enlightened decisions.

Technology transfer

We value having a close relationship with our clients, especially our larger clients. To this end and depending on relationship size, we will arrange to provide seminars and even host client personnel who wish to come and observe our investment practice. We believe that such an arrangement is mutually beneficial; for us, in proving our continuing and expanding worth to our client, and thus solidifying our relationship; for the client, in receiving useful exposure to our investment process and lending our expertise

We look forward to serving you.

Global Fixed Income Partners

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[5] I.e. buying much longer-term bonds.